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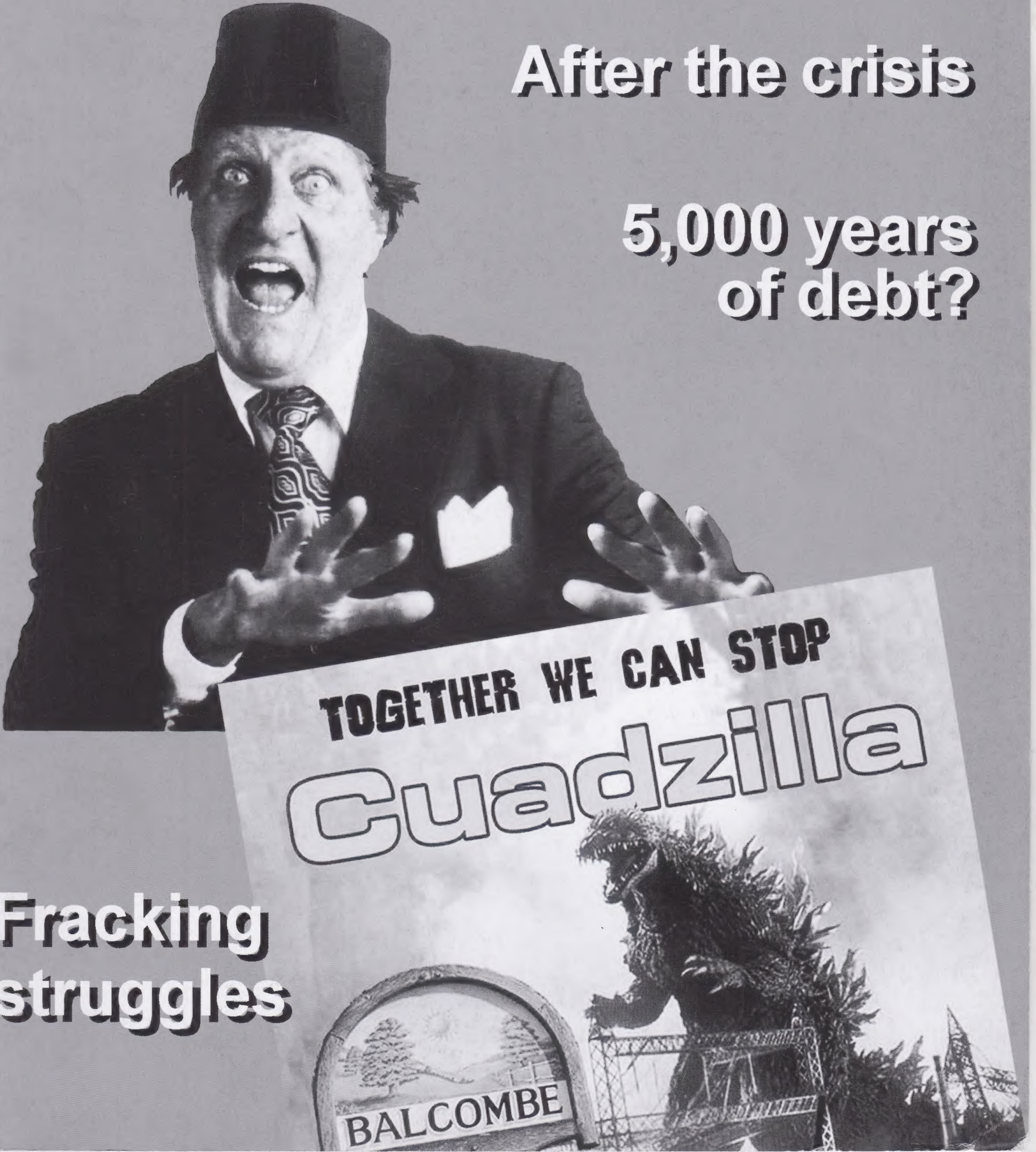
Aufheben

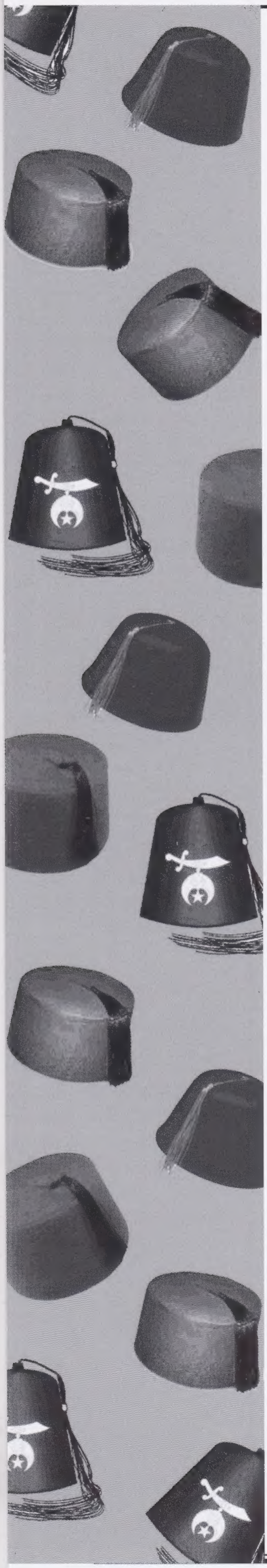
After the crisis

5,000 years of debt?



Fracking struggles

Aufheben **#22** 2013-4



PAGES 1-28

WHAT HAPPENED TO THE ECONOMIC RECOVERY IN THE WEST?

Did the crisis mark the beginning of a new down-swing in capitalist development? If not, why was the economic recovery so slow? In this article we focus on the failure of the economic recovery to take hold in the old capitalist heartlands by examining the case of the UK economy. We will argue that the failure of the economic recovery in the UK cannot be sufficiently explained by conjunctural factors such as the imposition of austerity measures or the impairment of investment due to the impairment of banking in the aftermath of the banking crisis, and that more long term structural factors that have come to fore since the crisis may be more important.

PAGES 29-42

5,000 YEARS OF DEBT?

David Graeber's book *Debt: The First 5,000 Years* is said to be the *Das Kapital* of the Occupy movement, and has been positively received by activists and intellectuals alike. It suggests that 'debt' and forms of money are valid categories that can help makes sense of violence, the state, and the market. However, we argue that the book's history of debt across the millennia relies too often on an elasticity over the essence of 'debt' and considerable 'poetic licence' in his examples from history. This has serious, and disappointing, implications for political criticism of both our past history and our present world.

PAGES 43-52

***INTAKES:* AN ACTIVIST'S PERSPECTIVE ON THE FRACKING STRUGGLE AT BALCOMBE**

Climate change is now almost universally agreed to be linked to capitalist industry and consumption, and is a massive point of tension for contemporary capitalism. Traditional fossil energy prices will inevitably continue to rise and will become increasingly uneconomical. Among the non-conventional fossil fuels that are now being exploited are shale oil and shale gas. These fossil fuels are extracted through fracking – hydraulic fracturing. Currently, the most high-profile mass direct action campaign against fracking taking place in the UK is the Sussex village of Balcombe. The campaign has some similarities to other environmental struggles in the UK in the last 20 years. For this *Intakes* article, we asked one of our friends who had been along to the Balcombe site to share with us his experience of the campaign and to give us his perspective on its prospects for escalation.

What happened to the economic recovery in the West? The case of the UK

INTRODUCTION

In issues 18 and 19 of *Aufheben* we presented a two part article on the financial crisis that had begun with the credit crunch in the summer of 2007 and culminated with the near meltdown of the global financial system a year later. In the first part of this article - 'Return of the Crisis: Part 1' - we focused on the immediate causes of the crisis. In the second part of the article - 'Return of the Crisis: Part 2' - we located the crisis in the context of the long upswing in global capital accumulation since the 1980s. For the most part this article was retrospective. However, we did put forward in the conclusion of Part 2 the view, albeit rather tentatively, that the crisis did not necessarily mark the beginning of a new downswing in capitalist development

> '...there seems little to suggest we have entered a long downswing, or that capitalism is now mired in stagnation other than the financial crisis itself. Indeed the rapid recovery in profits, and the confidence of much of the bourgeoisie in the long term prospects of renewed capital accumulation, would seem to suggest otherwise.'

Hence we went on to conclude:

> '...we might tentatively conclude that the nature and significance of the financial crisis is not that of a decisive turning point leading to an economic downturn or the end of neoliberalism as many have supposed, but more of a point of inflection pointing to a new phase in the long upturn.'

It is true that in a footnote we did hedge our bets:

> '...the rapid recovery in profits following the crisis has yet to result in a surge in investment and thus real capital accumulation. Even if capital accumulation does take off the austerity measures imposed by governments across Europe is likely to mean economic recovery will be slow for several years.'[1]

Nevertheless we did not quite expect that five years after the crisis the output of the UK economy would still be below its pre-crisis levels.

So did we get it wrong? From the perspective of those in the UK, and indeed much of the old capitalist heartlands of Europe, Japan and North America, the last five years have certainly been a period of slow economic growth, if not stagnation. There has been no rapid recovery from the recession that followed the financial crisis. What is more, what economic growth there has been has only been sustained by the unprecedented and exceptional monetary policies of the Bank of England and the US Federal Board in creating vast quantities of money and maintaining ultra-low interest rates.

Certainly from this perspective there would seem to be a good case for seeing the financial crisis as marking the beginning of a long downswing in the course of capitalist development, if not the beginning of capitalism's final demise. But this ignores the rest of the world.

For more than a hundred and fifty years world capital accumulation has been concentrated in a core of the advanced capitalist economies located in Europe and North America. Over the course of the twentieth century little changed except for the consolidation of the USA as the world's economic superpower, the rise and decline of the USSR and the inclusion of Japan in the 'rich nations club'. The rest of the world remained peripheral. It has therefore become long established that the fate of world capitalism is located in the US and the old capitalist heartlands. However, since the 1990s the long established structure of world capitalism has changed with the rise of China and the 'emerging economies of the global south' that now account for nearly half the world's GDP. The importance of this was brought home in the midst of the global financial crisis when the US did not summon the old rich nations club of the G8 to deal with the crisis but called the enlarged G20 so as to include China and most of the prominent members of the emerging global south.

In assessing the fate of world capitalism we can no longer simply look to what is happening in the USA and the old capitalist heartlands. Thus although the last five years have seen an exceptionally slow recovery from the crisis in the west, there has during this period been a rapid economic recovery in the emerging economies of the global south.[2] As a result, whereas the annual growth of the global economy before the financial crisis of 2008 had been between 4%-5%, in the

[1] 'Return of the Crisis Part 2', *Aufheben* #19, p.26.

[2] Between 2008 and 2012 the nominal GDP of US grew from \$14.2 trillion to \$15.7 trillion (i.e. an increase of 10% that was mainly due to inflation). In stark contrast China's nominal GDP has increased by over 80% from \$4.5 trillion to \$8.4 trillion.

last five years it has been between 3%-4% mainly due to the lack of growth in the old capitalist heartlands. Such rates of growth can hardly be considered as indicating economic stagnation or the beginning of a long term economic downswing.

On a global scale we could claim that we were right: the crisis of 2008 marked a point of inflexion rather than a turning point in the long term development of capitalism.

Furthermore we did suggest, albeit in a footnote, that

> 'The crisis could be seen as an earthquake caused by the shifting tectonic plates of global accumulation as the centre of accumulation shifts away from the USA and the old advanced capitalist economies towards China and Asia."

But we must admit we did not foresee this bifurcation of global accumulation. We did not expect that China would be able to become, at least temporarily, the locomotive of the global economic recovery in the wake of the crisis. Nor did we expect that the extent of the slow recovery would be in much of the old capitalist heartlands.

In this article we shall focus on the failure of the economic recovery to take hold in the old capitalist heartlands by examining the case of the UK economy. We shall seek to see if the failure of the economic recovery in the UK can be sufficiently explained by conjunctural factors such as the imposition of austerity measures or the impairment of investment due to the impairment of banking in the aftermath of the banking crisis; or whether there is room for more long term structural factors that have come to the fore since the crisis.

By far the most prominent explanation for the 'flat-lining' of the UK economy has been that the imposition of austerity measures in order to balance the government's budget simply 'killed off' the economic recovery. In the first section of the article we shall look at the austerity programme that was introduced by the Tory-led coalition government in 2010. In the following section we shall consider how far these austerity measures can account for the slow economic recovery. In the third section we shall consider the alternative conjunctural explanation of the failure of the economic recovery that sees the problem as a constraint on productive investment due to the impairment of the banking system following the financial crisis.

OSBORNE'S PLAN A

Well before the May 2010 election all three major parties had made it clear that they accepted the recommendations of the IMF with regard to fiscal policy.[3] First of all it was generally agreed that the time to set out firm plans for 'fiscal consolidation' had arrived. Over the duration of the next parliament 'tough decisions' it was said 'would have to be made'; taxes would have to be raised and public spending would have to be drastically cut back.

Secondly it was accepted that cuts to public spending would have to bear the lion's share of the efforts to cut the government deficit in order to 'rebalance the economy'. During the crisis of 2009 the private sector had sharply contracted while public spending had continued to expand. Hence the relative size of the public sector had grown substantially. It was therefore argued, that if the private sector was not to be 'crowded out' by public spending, then the proportion of public spending to GDP would have to be cut back to at least pre-crisis levels.

Thirdly, if the programme of deficit reduction was not to be blown off course, fiscal policy – i.e. decisions regarding how much the government should spend, tax and borrow - could no longer be used to promote economic growth. If the economy required further stimulus, then this would have to be provided by the Bank of England in the form of lower interest rates and further 'quantitative easing'.

Of course, it was tacitly agreed by all that the bulk of the burden of reducing the government deficit caused by the 'bankers' crisis' would have to be borne by the working class.

As Chancellor of the Exchequer, Alistair Darling set out in detail Labour's 'exit strategy' in the March 2010 budget. Darling proposed a seven year programme of austerity that aimed to restore the government's finances by 2017. The programme had two key targets. Firstly, the rapid rise in the burden of government debt - as measured by the public debt to GDP ratio - would

[3] Gordon Brown – the prime minister at the time – can claim to have played a major role in averting both the meltdown of the global financial system and a 1930's-scale economic depression by pressing for Keynesian-style expansionary policies. He had been wary of following the IMF's advice for an early 'exit strategy' for fear that the premature adoption of 'fiscal consolidation' would risk killing off the economic recovery. By the autumn of 2009 Brown had come into conflict with his chancellor over both the timing and the extent of the programme of austerity that was required to restore the 'nation's finances'. But in the face of growing discontent in the Labour party concerning his leadership, Brown needed Darling's political support. As a result, Darling's views won the day and became the Labour party's official position.

be halted by 2015, and then, by the end of the austerity programme, would be firmly set on a downward path. Secondly, by the end of the programme - the 'golden rule' of government finance - that over the course of an economic cycle current government spending should be covered by tax receipts and that the government should only borrow to finance investment in long term assets (such as hospitals, school buildings, roads and other infrastructure) – which had been suspended during the crisis, would be restored.

To achieve these two targets Darling's austerity programme proposed to reduce the government's deficit by £88 billion by the financial year 2014-15. Of this around 70% (£60 billion) would take the form of cuts to public spending, with the remainder being made up by raising taxes rates and national insurance contributions. With the bulk of the 'fiscal consolidation' being achieved in the first five years, further deficit reduction measures were pencilled in for the following two years that were to be firmed up closer to the time when the fiscal and economic situation would be clearer.

Darling's plan, backed as it was by the statistical power and authority of Her Majesty's (HM) Treasury, set the parameters for the debate over fiscal policy in the subsequent election campaign that began soon after. The Tories indicated that they would seek to go further and faster in cutting the deficit, but apart from outlining suggestions of bringing forward £7 billion of cuts to the current financial year (2010-11) they remained rather vague as to how fast or how far they would go. The Liberal Democrats, of course, faced both ways. On the one hand they sought to stress that they were a serious and responsible party fit for government by siding with the Tories in criticising Darling's plan for not going far enough to ensure the restoration of the nation's finances. On the other hand they expressed concerns that 'fiscal consolidation' should not begin too early for fear of 'killing off the fragile economic recovery', and as such agreed with Darling's programme that cuts to public spending and tax increases should not begin in earnest until 2011-12, when it was expected that the recovery would be well established.

During the election campaign all the three parties were keen to impress on voters how they were prepared to take the 'tough and potentially unpopular decisions' necessary to reduce the national debt and restore Britain's financial position. Yet they were far less keen in making clear what they would actually cut in any detail for fear of losing votes from those likely to be affected. Indeed, all parties were far more concerned with telling the electorate what areas of public spending they would *not* cut and what taxes they would *not* raise. Labour reaffirmed its now long-standing commitment not to raise income tax in order to avoid the Tories accusing them of returning to the 'tax and spend socialism of old Labour'. The Tories, equally anxious not to be painted as the 'Thatcherite nasty party' by Labour, promised to ring fence spending on health, schools, overseas development and pensioners. For their part Liberal Democrats promised to raise the personal allowance threshold for income tax above £10,000 a year – thereby taking most of those earning less than the full time minimum wage out of income tax. They also made what was to prove the popular but also ill-fated pledge not to raise university tuition fees.

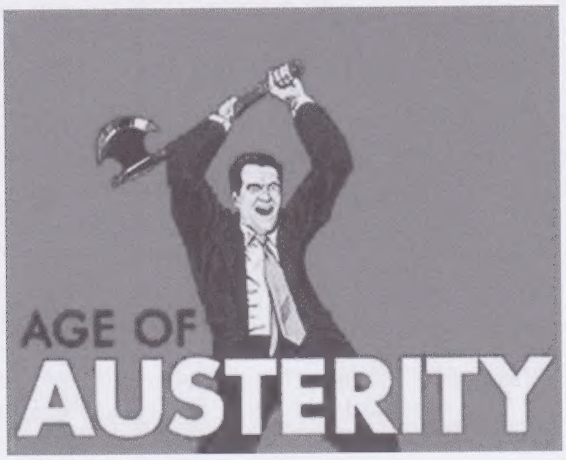
As a result, the more cynical bourgeois commentators had serious doubts regarding the politicians' commitment to following through on the scale of austerity that they proposed. However well-intentioned they may be, the politicians of any of the three mainstream parties could be expected to baulk at the scale of the spending cuts and tax rises once they had to face up to the real political implications of implementing them. Past experience, it was argued, showed that short term political expediency would always trump 'sound finance'. Concerns that the next government would be unable to make the 'tough decisions necessary to restore sound finance' was further reinforced during the election campaign as it became clear that no party would gain an overall majority. There now emerged serious concerns within the British establishment that there would be either a coalition government that would be too riven by conflicting political priorities and party advantage to agree in detail on a coherent austerity programme; or, even worse, there would be a minority government, which would be too involved in day-to-day political survival to worry about implementing a seven year austerity programme.

As it happened the UK general election of May 2010 coincided with the dramatic unfolding of the Greek sovereign debt crisis that was to result in the first 'euro bailout'. Less than a week after the fraught negotiations between the Greek government and the troika of the European Central Bank, the European Commission and the IMF had been completed, and amidst fevered speculation in the global bond markets as to which government would be next in facing a sovereign debt crisis, the British election had resulted in a hung parliament.

There was, of course, no imminent possibility of the UK facing a sovereign debt crisis on the scale facing Greece, despite what was implied in the lurid coverage of the crisis in much of the bourgeois press. First and foremost Britain, unlike those countries in the eurozone, had control over its own money. If necessary the Bank of England could always print money, as it was

already doing in the form of 'quantitative easing', to buy up an unlimited amount of government bonds if speculators attempted to dump them. Secondly, Britain was in a far stronger financial position than Greece, or any other of the countries facing the possibility of a sovereign debt crisis. Although Britain's government debt was rising fast, it was by no means near the levels of those of the eurozone economies threatened with a sovereign debt crisis. What is more the average maturity of British government debt was 14 years compared with 18 months for Greece. Hence the proportion of debt falling due and requiring refinancing was far smaller than that of Greece, or any other eurozone country for that matter.

Indeed, the euro crisis, at least in the short term, made it easier for the government to refinance its debt. British government bonds were seen as a safe haven. With the economic and financial uncertainty caused by the Greek bailout, international financiers were more than willing to buy up British bonds as a safe and secure form to park their funds.



Nevertheless, it could be argued that if public debt continued to rise some time down the line Britain could face a serious crisis, and that it would be better to act now rather than wait until the government's financial position became worse. After all, the Bank of England could only 'print money' due to the exceptional financial situation following the banking crisis. Once the banking system had returned to normal, if the Bank of England responded to a speculative attack on government bonds by simply 'printing money' to buy up these bonds, then this would risk triggering collapse in the value of the pound and hyperinflation. The debt crisis would thereby manifest itself not in a bond market crisis, but in the form of a crisis in the foreign exchange markets and rapid price inflation.

The vivid prospect, even if it might be several years down the line, of having to endure the humiliation of going cap-in-hand to the IMF like their Greek counterparts was sufficient to concentrate the minds of British politicians of all the mainstream parties. The Greek crisis was an opportunity too good to miss for those who were concerned to firm up the next government's commitment to austerity measures. The British establishment, led by the Bank of England and the mandarins at HM Treasury, backed by the bourgeois press, swung into action. Pressure was put on the Tories and the Liberal Democrats to put aside their differences and form a coalition government founded on the overriding imperative to restore the country's finances.[4]

Nick Clegg, the 'Orange Book' leader of the Liberal Democrats,[5] was more than willing to sign up to such a coalition. Any qualms that the Tories' proposals to cut the deficit faster and further might 'kill off the recovery' were cast aside. Against those in his party that were uneasy in taking part in government with their old enemies, Clegg insisted that it was necessary for 'the national interest' that there was a strong government that was able to sort out the country's finances. By the next election the worst would be over and the nation's finances would be more or less back on track. Normal politics could be resumed and the Liberal Democrats and the Tories could go their separate ways.

In June, George Osborne, the new Tory chancellor of the exchequer, put forward an emergency budget that outlined his austerity plans. The Greek crisis certainly provided Osborne with the opportunity to go substantially further and faster in what became known as Osborne's Plan A than the austerity programme Darling had proposed in his March budget. Over the next five years Osborne proposed to cut the deficit by an extra £40 billion over and above the £88 billion that had been put forward by Darling. This would come from a further £32 billion in cuts to public spending and a further £8 billion by the way of tax increases. Thus giving a total deficit reduction over the next five years of £128 billion (approaching 7% of GDP, compared with the approximately 5% of GDP deficit reduction outlined in Darling's March budget), with 80% coming from cuts to public spending and only

[4] The make-up of the new parliament meant that the only viable coalition was that between the Liberal Democrat party and the Conservative party. If the Labour party had won it is unlikely that they would have put up much resistance to the British establishment's insistence that it was now necessary to go further and faster in reducing the deficit that had been proposed by Darling in his March budget

[5] In 1928 Keynes, amongst other Liberal party intellectuals, published what became known as the as the Yellow Book which put forward policy proposals that marked a decisive shift in the party from the old classical liberal economic and social views towards those of Keynes and social democracy. Mirroring the Yellow Book, Nick Clegg and other prominent Liberal Democrats, published the Orange Book in 2007. This manifesto sought to shift party policy towards neoliberal orthodoxy.

20% from tax increases. By cutting faster and further, Osborne was able to bring forward Darling's twin targets by a year or so. The halt to the rise in government debt to GDP was now projected to occur sometime during the financial year 2014-15 (i.e. well before the date of the next general election); while return to the 'golden rule' of the government 'borrowing only to invest' would be more or less achieved by the following year 2015-16 rather than 2017. In addition, by shifting the emphasis of deficit reduction onto public spending cuts, the size of the public sector relative to the economy as a whole would be restored to pre-crisis levels within five years.[6]

Alongside the budget, Osborne announced the formation of the Office of Budget Responsibility (OBR). There had been long-standing criticisms of HM Treasury for bending too far to the will of their political masters in their economic and fiscal projections. Treasury forecasts had tended to err on the optimistic side both in the economic forecasts concerning economic growth and in the size of government deficits and debts that allowed successive governments to justify higher public spending or tax cuts. The OBR was to be an official statutory body, run by reputable economists independent of the treasury, which would be responsible for making its own fiscal and economic forecasts. These official forecasts could then be used to verify the veracity of the government's austerity plans. With the establishment of the OBR, it was argued, the politicians would no longer be able to fudge the figures.[7]

Osborne's Plan A was certainly far tougher than that outlined by Darling less than three months before. Furthermore, with the plan embedded at the heart of the coalition agreement, with the two parties' commitment not to cut and run but to rule for a full five year term, and overseen by the OBR, it was a plan that seemed far more likely to be carried out in full. If nothing else it achieved the immediate aim of helping to calm the global financial markets after their volatility following the Greek debt crisis.

However, many on the Tory right protested that Osborne was being far too timid! The Greek crisis had offered Osborne a golden opportunity to roll back the state and force through radical neoliberal policies. Instead, as they pointed out, under Osborne's austerity plans total public spending, even after taking into account the general rate of inflation, would still be higher at the end of five years that it was at the beginning. This was because the headline cuts to public spending put forward by both Darling and Osborne were cuts to planned spending that had been originally pencilled in by the previous Labour government before the crisis of 2008. At that time, Labour had assumed that the economy would grow at an average of around 2.5% a year. As the economy grew incomes would increase, sales would increase and employment would increase. As a result, even if tax and contribution rates were held constant, tax revenues from income tax, VAT, National Insurance and other taxes could be expected to increase more or less in line with growth in the economy. With tax revenues rising at more or less 2.5% a year on average it was then possible to finance an increase in public spending at the same annual rate without raising tax rates or borrowing more.

But of course Gordon Brown's infamous claim to have abolished 'boom and bust' proved to be wrong. The economy had sharply contracted after the 2008 financial crisis while public spending had continued to grow leading to the large deficit and a rapidly growing government debt. Darling's plan had been to drastically reduce the rate of growth of public spending to well below the expected rate of growth of the economy for seven years. Rising tax revenues due to economic growth, the 'proceeds of growth', would then mostly serve to reduce the gap between spending and tax revenues. Osborne's plan went further. It aimed to more or less freeze total public spending for five years. As a result the entire 'proceeds of growth' would serve to reduce the deficit.

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[6] Osborne's austerity plan also provided room for a few sweeteners for the party faithful that were to be achieved during the five years of austerity. For the Tories there was the promise of a cut in corporation tax, for those corporations who could be bothered to pay it, from 28% to 24% and a reduction in the temporary 50% income tax rate band, which had been introduced by the previous Labour government as a token gesture towards 'taxing the rich'. For the Liberal Democrats there was the promise to advance their 'fair tax agenda' by honouring their election pledge to raise the personal income tax allowance to £10,000 a year.

[7] Although the OBR was intended to be independent, in its early stages it was closely tied to the government. The economists appointed to run the OBR were selected by Osborne. In the first few months of its existence the OBR was run from the Treasury and was dependent on Treasury facilities, computer models and officials to draw up its forecasts. Indeed the newly established OBR was closely involved in drawing up the June 2010 budget so as to ensure that Osborne Plan A would be given its stamp of approval.

Now this is not to deny the severity of Osborne's austerity plans that have been highlighted by the anti-cuts movement. First, many public services have to grow in real terms just to stay still. In the case of the NHS, for example, it has for a long time been recognised by health economists that more sophisticated drugs and medical technology, together with an aging population, means that spending on the health service has to grow by at least 3% in real terms (i.e. over and above the general rate of inflation) if it is to maintain its commitment to provide comprehensive and universal health care free at the point of use. Likewise for defence. The continued development of ever more technologically sophisticated weapon systems in the international arms race means that if the armed forces are to maintain their current fighting capacities and international commitments to NATO and the UN then the defence budget also has to grow in real terms.

In other areas of public spending current demographic and other factors are placing upward pressure on costs over the coming few years. In education the mini baby-boom of the last ten years means an increased demand for school places, which means more or expanded schools and hence more teachers and other staff to run them. In the area of welfare spending there are the extra demands being made by the retirement of the postwar baby boomers. The bulge in numbers reaching retirement age means that the government is committed to spending more over the coming years on state pensions and occupational pensions for former state employees, together with the numerous concessions to the elderly, such as free bus passes, free TV licences and winter fuel payments. In addition, the failure of house building to keep up with the demand for more housing has meant rapidly rising house prices and thus higher rents. With rents rising far faster than the general rate of inflation the total housing benefit bill paid by the government – effectively a huge subsidy to private landlords – has been ballooning in real terms. Furthermore, the policy of subsidising employers that pay low wages through the 'tax credit' system has also been pushing up the welfare bill in recent years. As more employers find that they can push down wages and then expect the government to top them up to something more like a living wage, the cost of tax credits has been steadily rising in real terms.

Second, to the extent that some areas of public spending are 'ring fenced' for legal, contractual or political reasons, then a freeze on overall government expenditure necessarily implies that there must be actual real cuts in spending in the remaining areas of state spending. Indeed, David Cameron's promises to ring fence spending on health, schools, overseas development and pensioners made during the May 2010 general election campaign were to present Osborne with serious problems a few weeks later when drawing up the details of his plan to rein in public spending.

First up was the problem of paying the interest on government debt, which in 2010 constituted around 7% of total annual public spending. Of course, no 'responsible' government could even contemplate not having enough money to honour its debt commitments. Now it is true that the Bank of England was keeping interest rates at exceptionally low levels. However, this state of affairs could not be expected to last forever. Sooner or later interest rates would rise. This, together with the rapid rise in government debt, would mean that Osborne would need to put aside a substantial increase in the amount of money in his austerity plans to ensure he could cover rising interest bills.

If the interest fund had to increase where else could Osborne find savings? The obvious target was the welfare budget, which constituted more than a third of total annual public spending. However, there had been a long-standing consensus amongst policy makers that the basic levels of welfare benefits were more or less the absolute minimum that people could be expected to live on. Furthermore, it had been accepted by successive governments that it would be politically unwise to be seen cutting the living standards of the poorest in society on any great scale, particularly at a time of high unemployment. There may have been scope for cutting or withdrawing certain premiums and additional benefits that top up basic levels of benefits, but any such measures could only be expected to make little more than a marginal reduction in the total benefits bill. It was therefore generally accepted that benefit rates would have to rise with the general rate of inflation.

With the level of benefits paid to individual claimants more or less fixed, the size of the welfare budget was mainly determined by the numbers of people making claims. Successive 'welfare to work' reforms pushed through by the previous Labour government, which culminated in the abolition of incapacity benefit and its replacement by the far more restrictive Employment and Support Allowance for the sick and disabled, had already gone as far as was then thought feasible in restricting eligibility for

benefits and imposing more onerous conditions on claimants. These 'welfare to work' reforms had been primarily aimed at making claimants compete for work and as such often involved greater costs. More had to be spent on 'capability to work tests', 'back to work schemes' and workfare programmes, particularly since most of these schemes were outsourced to private companies on lucrative contracts. These extra costs could be expected to offset most of any savings that might have been made by reducing the numbers of people claiming benefits, either through making less people eligible or deterring them from claiming by imposing more onerous conditions on claimants.

Thus the number of claims, and thus the total welfare bill would be determined for the most part by demographic and economic factors that were largely out of the government's control. Thus it was thought there was little scope for cutting back on the projected increase in the welfare budget.

The next largest area of government spending, after welfare, was the NHS. The NHS constituted more than 16% of total government expenditure and its budget had experienced rapid growth under the previous Labour government. As such there was perhaps a certain scope for cutbacks. But convincing the electorate that the NHS was 'safe in his hands' had been central to Cameron's five year attempt to rebrand the Tories as the 'compassionate Conservative party' thereby making them electable once more. Therefore Osborne had little alternative but to ring-fence the health budget.

Next up was education, which constituted around 12% of total government expenditure. Yet here again Cameron had pledged to ring-fence spending on 'schools' - which was generally interpreted as being spending on primary and secondary education. This left only pre-school, further and higher education budgets outside the ring-fence. The lion's-share of the education budget was therefore also protected from cut backs.

Thus, with spending on interest and other contractual commitments set to sharply increase, and the pre-austerity plans for increased spending on welfare, the NHS and most of the education budget ring-fenced, more than two thirds of government spending was set to rise over the next five years. If overall government spending was to be kept constant, then there would have to be draconian cuts to the remaining areas of public spending. There would have to be devastating cuts to both defence and 'law and order', neither of which would go down well with the Tory party faithful. There would have to be drastic cuts to local government, which would upset many Tory local councillors, and there would have to be cuts as well to important social and economic areas such as housing, the environment and transport.[8]

Osborne's solution to this problem was firstly to separate off that half of the welfare budget that paid benefits to pensioners. This was to be ring-fenced. This left the other half of the welfare budget, which went to working age claimants, available for cuts. Following a relentless propaganda campaign against 'welfare scroungers' backed not only by much of the mainstream press but also by the Labour party with its concern for the 'squeezed middle of hard working families', Osborne was able to win public support for cutting benefits. By the time of the 2010 autumn spending review Osborne had announced more than £18 billion of cuts to the planed annual welfare budget over the following five years.

Secondly, Osborne effectively made large cuts to capital spending: that is spending on building schools, hospitals, roads and other social and economic infrastructure. Following the financial crisis the previous Labour government had brought forward planned capital spending as part of its efforts to sustain demand in the economy and prevent a great economic depression. Construction projects that had been due to begin in 2010 and 2011 were, where possible, started in 2009. This meant that capital spending rose sharply in 2009 but was due to start falling sharply by the autumn of 2010. Rather than restoring capital spending to levels prior to the crisis, as Darling had proposed, Osborne proposed to freeze capital spending in real terms over the following five years at the reduced levels of the end of 2010.

Thirdly, following the example of Thatcher's governments of the 1980s, Osborne took a large swipe of the axe to the grants paid to local government. This neatly shifted the responsibility, and hence the blame, for making public spending cuts from the government to local politicians.[9] Furthermore, by tweaking the formulas used to calculate the grants paid to each local council Osborne was able to ensure that it would be Labour councils that would be responsible for making a disproportionate slice of the cuts.

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[8] If we assume that the areas ring-fenced would have grown by an average of 2.5% a year then over Osborne's five year plan the level of spending would be more than 12.5% higher. If total spending was to be the same in real terms at the end of the plan as in 2010 then the remaining one third of public spending would have to be cut in real terms by more than 25%! Could Osborne really countenance cutting the number of police by a quarter?

[9] Of course this ruse to shift the blame for public spending cuts on to local government worked for a while. However, it eventually led to the poll tax that was to play a part in the downfall of Thatcher.

As a result Osborne was able to claim that, unless Labour was prepared to remove the ring-fencing of the NHS, his plans for spending cuts on the remaining non ring-fenced central government departments – such as defence, law and order, housing, transport and the environment – would be more or less the same as those implied under Darling's austerity programme. Thus Osborne was able to box the Labour party into a political dilemma: if they were to criticise 'Tory cuts'; they either had to support ring-fencing the NHS, or the welfare budget.

Whatever happened to Osborne's Plan A?

By the autumn of 2012 it was evident that Osborne's plan for restoring the nation's finances had been seriously blown off course. Osborne was obliged to admit that despite two years of austerity, little progress was now being made in reducing the government's budget deficit. Indeed, Osborne was rapidly running out of plausible ruses to cover up the fact that the reduction in the government's budget deficit had more or less stalled; he had also been obliged to concede that both the target to halt the rise in the government debt to GDP ratio and to restore the golden rule of balancing taxes and current spending over the course of the economic cycle would have to be put back by two years.

The failure of Osborne's Plan A had not been due to any failure of political will. On the contrary, the coalition government had been able to see off the opposition to its austerity measures with surprising ease. It is true that less than six months after the election, the coalition government had faced a wave of mass protests against both the tripling of university tuition fees and the scrapping of the Education Maintenance Allowance. But, although these protests by school kids and university students had gained widespread public support, they quickly petered out after a few short weeks. Their only lasting achievement was to discredit Nick Clegg and the Liberal Democrats who had been pushed to the front by Cameron to defend these policies and explain why they were breaking their pre-election promises.[10]

It is also true that in August 2011 the dire warnings made by concerned liberals that Osborne's austerity measures would lead to riots and social disorder reminiscent of the 1980s appeared to be borne true with a wave of riots across towns and cities in England. But again they were a fleeting phenomenon that has had no lasting effect other than rallying the 'respectable law abiding majority' behind the government.

Late 2010 had also seen the rapid growth of the 'stop the cuts movement', which was to culminate in the quarter of a million strong national demonstration called by the TUC in March 2011. This mass protest had then played an important role in galvanising support in June and November for the two unprecedented co-ordinated one day strikes of public sector workers against the government's proposals to raid public sector pension funds. But the government did not flinch. They were quite prepared to suffer the nuisance of public sector workers going on strike for the day every three to six months. Furthermore, given that most private sector workers had lost most of their pension rights long ago and had accepted cuts to wages and conditions due to the recession, the government was no doubt confident that if the trade unions tried to escalate the dispute they could win the propaganda war by pitting private sector workers against public sector workers.

In the face of the government's intransigence over their pension proposals, the leadership of the public sector trade unions capitulated. Having wagered almost everything on the power of the public sector unions to defeat the government over pensions, the anti-cuts movement was dealt a devastating blow from which it has yet to recover.

Not only had the Tory-led government managed to win the political argument that austerity was necessary, and that Osborne's Plan A was the only way to do it, they had also succeeded in their administration of the austerity measures. Indeed they had been so successful that several government departments had been so efficient in making spending cuts that they had reported significant underspends by the end of both the 2010-11 and 2011-12 financial years. What had blown Osborne's Plan A off course was not a failure to make cuts and raise taxes, but a failure of the expected growth of the economy to materialise.

The sharp contraction in the output of the economy that had followed the financial crisis at the end of 2008 had more or less come to an end in the closing months of 2009. By the time of Osborne's first budget six months later the UK economy appeared to have been in the early stages of recovery, with growth, although still rather erratic from quarter to quarter, running at an annual rate of about 1%. Although it was still rather 'fragile' in 2010, it was widely expected, on the basis of the experience of previous recessions,

[10] The discrediting of Nick Clegg and the Liberal Democrats has in fact only served to strengthen the Tories. With the Liberal Democrats still languishing in the opinion polls they have no other option but to stick with the coalition and hope that by the next election memories of their 'betrayal of the students' will have faded. Without any realistic threat of abandoning the coalition government they have lost much of their bargaining power with the Tories. Indeed the main threat to the continuation of the coalition has come from the Thatcherite right. Labour, of course, chose to back cuts to the welfare budget.

that at some point during 2011 the economic recovery would begin to take hold and gather momentum. By 2012 the economic recovery was expected to be well on the way to turning into an economic boom as the economy raced to make up lost ground.

Yet by the end of 2010 the economic recovery had begun to stall. From the beginning of 2011 until well into 2013 the economy barely grew at all. As a result, more than five years after the 'great recession', the level of output still remains well below its peak on the eve of the crisis - giving rise to the slowest economic recovery in modern times, longer even than that of the 1930s.

So how has the failure of economic growth blown Osborne's Plan A off course? A key argument for dealing with the deficit early had been that if austerity measures were put off until there was a serious 'Greek scale' crisis then there would be no option but to make rash cuts to public spending. By acting early it would be possible to impose austerity in a more measured way. There would be far more time for government departments and local authorities to identify spending priorities and make more rational and deliberative plans for their more restricted budgets. Indeed if the rolling back of the state was to be sustainable it was argued that long term decisions had to made concerning what public goods and services the state should provide directly, what could be commissioned from private providers and what could be abandoned entirely to the private and charitable sectors. Such decisions could not be made in the midst of hasty slash and burn cutbacks.

Thus Osborne's Plan A had allowed for a moderate increase in total public spending through 2010 and 2011, before then being pegged back down again to the 2010 levels in 2012 and 2013.

Yet Osborne had been determined to act early on to reduce the government's budget deficit in order to head off what he saw as the alarming rise in the government's debt to GDP ratio and to 'maintain the confidence of the bond markets'. If Osborne was to allow time to slow down and then halt the growth of public spending, then the initial burden of reducing the deficit would have to fall on tax increases. By raising the standard VAT rate to 20% at the beginning of 2011, Osborne had been able to bring in a significant increase in government revenues, which had not only served to cover the continued increase in public spending but also to bring about a significant reduction to the budget deficit. As a result, in the March 2011 budget Osborne had been able to claim that he had made an early, if rather modest start in reducing the government's budget deficit, and hence the growth in government debt, and was therefore well on track in meeting the twin targets of his Plan A.

Now of course, by themselves, increasing tax rates only bring about a once and for all increase in the annual 'tax take'. Thus by the beginning of 2012 the reduction in the budget deficit due to the increase in the rate of VAT would be more or less complete. But, by then, the cutbacks in the overall level of public spending would be beginning in earnest and could be expected to take up much of the strain in reducing the budget deficit figures.

Yet once the process of pegging back public spending to 2010 levels was itself complete, Osborne's deficit reduction plans became entirely dependent on the increased tax revenues arising from economic growth. Of course, it had been expected that by then the economy would be well on the road of recovery, and as a result tax revenues would be flooding in. But as we have seen, the economic recovery had stalled in 2010; the expected 'proceeds of growth' had failed to materialise. The VAT rate increase and the subsequent pegging back of public spending may have served to mask the growing shortfall of tax revenues due to the failure of the economic recovery for a couple of years, but by the end of 2012 it was fast becoming clear that the reduction of the government's budget deficit had come to a grinding halt due to the lack of economic growth. Osborne had to admit that he would not come anywhere near to hitting his twin targets of halting the rise in government debt to GDP ratio by the end of the financial year 2014-15 and balancing the current budget deficit over the course of an economic cycle by 2015-16. Osborne's Plan A, as originally formulated, had failed due to a failure of the expected economic recovery to materialise.

As we have already noted, there had been right from the beginning many Keynesian-inspired critics of Osborne's plan that by cutting the budget deficit 'too far and too early' it risked killing off the fragile recovery. As it became increasingly clear that the economic recovery had stalled, these critics gained increasing support from both left and right. Osborne, it was argued needed a Plan B – a plan that would include measures to stimulate the economic recovery. From the left it was argued that the best way out of the government's financial predicament was through economic growth. The government should relax its austerity plans and take advantage of the ultra-low interest rates to finance much needed state investment in updating transport infrastructure, house building, the long overdue refurbishment of schools and electricity generation. Many on the right, particularly leading businessmen and industrialists agreed that a major public

investment programme was needed to 'kick start the economic recovery' but no doubt encouraged by the ease at which Osborne had been able to roll back the state through his austerity measures, proposed that such public investment should be financed by another round of cutbacks to current public expenditure, with cuts to the welfare budget being the prime target.

Osborne's response has been to stick to his guns. As a result Plan A has morphed in to what has been dubbed 'Plan A plus'. On the assumption that the economic recovery has somehow been delayed for two years or so, Osborne has for the most part simply put back the dates for achieving his twin targets by two years. To ensure these target dates are met austerity has been both extended and deepened through an extension of the period of zero growth in total public spending by two years and the announcement of further rounds of cutbacks to public spending for the financial years 2013-14, 2014-15 and 2015-16.

In response to the criticism from both left and right that he has no growth strategy Osborne has moved on from merely politely asking the banks to lend more to small businesses to various schemes aimed at boosting private investment. But despite much hype all the schemes that have been announced amount to little in the way of boosting economic growth. The overriding aim of reducing the government debt and a reluctance to go too far in cutting current public spending beyond what was needed to reset Plan A has meant that there is little money available for large scale public investment.[11]

The success of Osborne's Plan A plus, as his original Plan A, depends on the eventual arrival of the now long-awaited economic recovery. But haven't those Keynesian-inspired critics, who warned at the time that by cutting too fast and too early Osborne risked killing off the economic recovery, been proved right? Is it not the case that Osborne's own austerity measures have been responsible for killing off the economic recovery. Certainly Osborne and the host of policy wonks, economic forecasters and SPADs (special political advisors) that surround him seem to be prime suspects.

SO WHAT DID HAPPEN TO THE ECONOMIC RECOVERY IN THE UK?

In their defence, the policy wonks, economic forecasters and SPADs that worked on formulating Osborne's Plan A can claim that they were far from being alone in their expectations of a strong recovery in the UK economy. On the basis of the experience of previous recessions, in both the UK and other advanced capitalists economies, the prevailing view of informed mainstream economic opinion in 2010 had been that, even taking account of the scale of 'fiscal consolidation' proposed by Osborne's Plan A, there would be a vigorous and robust rebound from the 'great recession'. If anything the OBR forecasts were decidedly on the 'pessimistic' side, when it came to projections for economic growth over the following five years, compared with most other mainstream economic forecasts of the time. Indeed, the OBR had deliberately erred on the side of caution in making its economic and fiscal forecasts in order to demonstrate its independence from HM Treasury and its perennially over-optimistic predictions.

Of course it had been generally conceded that following the 'traumatic shock' of both the near meltdown of the global financial system and the consequent sharp contraction of the UK economy there might be a period of slow and uncertain economic growth before the recovery finally took hold. After all, it was argued, it would take time for the financial system to regain confidence and for the banks to repair their 'balance sheets' and begin lending again; and it would also take time for companies and individuals to work off their excess debt before they could begin borrowing to finance investment and consumption once more. Indeed, as was pointed out, empirical evidence from past recessions seemed to suggest that recoveries following recessions caused by financial crises, particularly those centred on the banking system, tended to take significantly longer to get going again compared with recessions caused by other factors.

Nevertheless, the consensus view was that such a period of uncertain growth would not last much more than a year. Therefore it had been widely expected that, after some delay, the economy would eventually 'take off' sometime in 2011. Such expectations were duly incorporated in to the OBR's growth forecasts. Hence, as can be seen from Table 1 (below), the OBR had forecast that with the contraction of the economy having been halted in 2009 the economy would grow by slightly more than 1% in 2010, gather pace in 2011 and be growing at nearly 3% by 2012 – significantly above the OBR's estimate of the long term average rate of growth of the UK economy of 2.25%.

[11] Proposals by the more Keynesian-minded Vince Cable – the Liberal Democrat secretary of state for business, innovation and skills – to boost the economy through public investment have been hamstrung by the tight spending limits imposed by Osborne's Plan A. However, Osborne has been more successful in engineering the beginnings of another housing price bubble through his Funding for Lending scheme in which the government guarantees a proportion of the value of mortgages allowing the banks to substantially reduce the deposit prospective homebuyers have to put down before banks will lend them money to buy a house.

Table 1. OBR's forecasts for economic growth

	2009 out-turn	2010 forecast	2011 forecast	2012 forecast	2013 forecast	2014 forecast	2015 forecast
OBR's forecasts for the rate of economic growth*	- 4.9	1.2	2.3	2.8	2.9	2.7	2.7

*Source: OBR June 2010 Table C3

Yet, as we have pointed out, since late 2010 to early 2013 the economy has barely grown. So what did happen to the predicted recovery; and how did the OBR, and indeed most other mainstream economic experts, get it so wrong?

Was it austerity that killed off the recovery?

Keynesian and anti-austerian commentators may well argue that it was their very adherence to the ideologically blinkered neoliberal mainstream in economic theory that had led the architects of Osborne's Plan A, along with most other mainstream economic forecasters, to seriously underestimate the impact of their proposed austerity measures on the rate of economic growth. Thus it has been said that 'by cutting too far and too early' Osborne's austerity measures have served to kill off the very recovery that the plan had depended on for its success.

So what grounds are there for suspecting that the ideological bias of the mainstream economics might have led the architects of Osborne's Plan A to seriously underestimate the impact on economic growth of their proposed plan of 'fiscal consolidation'?

In the heyday of the old Keynesian consensus of the 1950s and '60s it had been widely accepted amongst both economists and policy makers that the government had the power not only to maintain near full employment but to 'fine tune' the economy through the use of both fiscal and monetary policy to manage the growth of 'aggregate effective demand'. Indeed it was widely thought that within fairly precise limits governments could make the political choice as to whether they were prepared to tolerate a higher rate of inflation, so as to have a lower rate of unemployment; or a higher rate of unemployment, so as to have a lower rate of inflation.

Thus, for example, if the government wanted to 'stimulate' the economy in order to reduce the dole queues it could adopt a 'looser' monetary policy. Short term interest rates could be cut and credit controls could be relaxed so as to make it cheaper and easier for firms and individuals to borrow money to finance increased spending on investment and consumption. The consequent increase in demand for consumption and investment goods would then lead to an increase in supply. Output would increase, and hence more labour would be required to produce it. On the other hand, if the government wanted lower rates of inflation it could 'tighten' monetary policy by raising short term interest rates and by imposing more restrictive credit controls. By making it harder and more expensive to borrow, a tighter monetary policy could then be expected to reduce the growth of spending power in the economy. There would therefore be less demand for goods and services and consequently less demand for labour. As a result, firms would find it more difficult to raise prices, and trade unions would be in a weaker position to bargain for higher wages.

However, monetary policy was seen as a rather indirect and thus a rather unreliable instrument for managing aggregate demand. Firstly, the effectiveness of monetary policy depended on the changes to short term interest rates giving rise to a corresponding change to the longer term interest rates that actually determine the costs of borrowing for firms and individuals. Secondly, even if a change in short term interest rates brought about a corresponding change in longer term interest rates, there was no guarantee of how far this would result in either an increase or decrease in the amount of debt-financed spending in the economy. This would depend on a number of factors other than merely the cost of borrowing that determine both willingness of lenders to lend and of potential borrowers to borrow. Monetary policy was therefore seen as playing a rather secondary role in the managing of aggregate demand in the economy. The primary instrument for 'fine tuning' the economy was seen as fiscal policy.

Fiscal policy was seen as a far more direct and reliable means of managing aggregate demand since it involved the use of the government's own powers to raise taxes and to spend on public services to directly increase or decrease demand in the economy. If the government wanted to increase the spending power in the economy in order to reduce unemployment it could adopt an 'expansionary' or 'reflationary' fiscal policy that would reduce the spending power taken out of the economy in the form of taxes, and increase the amount put in to the economy by increasing its own spending on welfare and public services. Contrawise, if the government saw rising prices as the pressing problem it could adopt a

'deflationary' fiscal policy that would take out more spending power by reducing the government's budget deficit through tax rises and cutting public spending.

However, the idea of sustaining near full employment and 'fine tuning the economy' through the management of aggregate demand came unstuck with the emergence of the phenomenon that became known as stagflation – that is the co-existence at one and the same time of both rising rates of inflation and rising unemployment – that accompanied the economic crises of the 1970s. This was to open the established Keynesian consensus to attack from the early shock troops of neoliberalism – the monetarists led by Milton Friedman and his 'Chicago boys'.

The immediate objective of the monetarists' assault on the old Keynesian orthodoxy had been to overthrow the contention, which had been a corner- stone of the postwar social democratic settlement, that the government had both the power and the responsibility to maintain high levels of employment through Keynesian-style management of aggregate demand. The ideological basis for this assault had been the presumption that free markets, left to themselves, provide the optimal and most efficient means of allocating resources that would ensure the maximisation of profits for companies and the maximisation of 'utility' for individuals and households. Through the free play of supply and demand, the markets for both the multitude of goods and services, together with the markets for the labour required to produce them, would determine the optimal relative price of each good or service, the optimal amount of it that should be produced, and hence the optimal amount of labour employed, and the relative wages that would be paid to the workers producing it. Any attempt on the part of the government to meddle in these workings of the market could only end up being detrimental to the efficient functioning of the economy. As Thatcher is reputed to have said 'you can't buck the market'.

The first line of attack was to deny the efficacy of fiscal policy that as we have seen was central to the old Keynesian orthodoxy. The monetarists did not deny that by running a budget deficit the government could bring about an immediate increase in aggregate demand in the economy. But as they pointed out, the government would have to borrow money to finance this deficit. Given that the amount of money available to borrow was determined by the Bank of England's monetary policy then the more the government borrowed the less there would be left to finance private investment and consumption. Hence the extra demand injected into the economy through an expansionary fiscal policy would end up being cancelled out by the 'crowding out' of private sector borrowing. Thus, by itself, fiscal policy could at best have only a limited and temporary impact on levels of output and employment in the economy.

However, if fiscal policy was too weak, for the monetarists monetary policy was too strong. Now, although *relative* prices and wages were determined by markets for goods and labour, in the absence of a commodity money like gold, the *absolute* level of prices was determined by the supply of money, and hence by the monetary policy pursued by the authorities. Thus, it was argued, if the authorities were to adopt an expansionary monetary policy that doubled the supply of money in the economy, this would eventually lead to a doubling of nominal wages and prices. But since all prices and wages had doubled, relative prices and wages would end up the same as they had been in the first place.

But the process of an increase in the supply of money brought about by an expansionary monetary policy might take some considerable time to work itself out. In the meantime there could be a substantial impact on the levels of output and employment. Thus in the short to medium term monetarists did accept that an expansionary monetary policy could bring about an increase in output and a fall in unemployment, but it could only do so by tricking firms and households into mistaking a rise in the price of the goods or labour that they sold due to the general rise of prices and wages for a real or relative increase in their own price or wage.

Thus for example, if the monetary authorities loosened monetary policy and thereby increased the money supply, the amount of spending power in the economy would increase. Businessmen would find that trade was brisk and sales were buoyant. They would soon learn that they could raise their prices without losing too many sales to their competitors, and that their competitors would soon follow suit. With prices rising relative to costs, and with increased sales, businessmen would soon be enjoying rising profits. With the expectation of growing demand and rising profits, many businessmen would then be induced to borrow to expand production, thereby giving a further twist to the spending power in the economy as they hired more workers and purchased new equipment and more raw materials. But the increased demand for raw materials and equipment would soon allow the businessmen that produced and sold them to raise their prices. Costs would as a result begin to rise. As prices across the economy rose, the cost of living for workers would rise. With labour in short supply workers would be able to start demanding higher wages to compensate for rising prices. Profit margins would then become

squeezed and profits would begin to fall. Those businessmen that had borrowed on the expectation of ever rising profits would find themselves facing bankruptcy. Production would be cut back and workers laid-off in order to cut costs. Ultimately, after producing this cycle of boom and bust, the loosening of monetary policy would result in output and employment returning more or less to their previous levels.

Thus it was that ultimately the only result of a one-off expansion in the money supply would be an increase in the level of wages and prices. It was therefore not only that monetary policy was too uncertain in its effects to be used as means of fine tuning levels of output and employment; but that it held the danger of triggering a disruptive cycle of boom and bust, and that it would eventually prove to be futile anyway.

So, for the likes of Milton Friedman, attempts to use fiscal policy to manage aggregate demand so as to ensure high levels of employment during the post-war era had largely ended up simply displacing productive private sector investment with profligate public spending, which had resulted in an over-bloated state sector – which Thatcher then promised to prune back. To the extent that high levels of employment had been sustained through manipulating aggregate demand, then this had been the result of loose monetary policy, which the Keynesians had assumed had been playing only a supportive role to fiscal policy. But, as we have seen, to sustain a level of employment above that determined by the markets, it was not enough merely to allow a one-off expansion of the money supply. It had been necessary to repeatedly expand money supply. This had resulted in a continuous rise in the level of prices – i.e. price inflation. What is more, as firms and individuals had come to expect a given rate of inflation, then the impact of monetary policy on levels of employment and output diminished. High levels of employment could only then be maintained by an ever increasing growth of the money supply and as a consequence ever rising rates of inflation, together with ever more volatile cycles of boom and bust. Hence it had been the misguided policies inspired by Keynes, and his mistaken notion that the state could 'buck the market', that had led to the crises and stagflation of the 1970s.

Many of Freidman's younger followers, that were later to become known as the new classical school, went further. They protested that it was patronising for economists and policy makers to believe that they could trick ordinary people running businesses and managing their household budgets into buying or selling more or less than they would otherwise have chosen to do. They would soon learn, not merely to expect a certain level of price inflation on the basis of past experience; but - presumably armed with the knowledge provided by our rather modest economic theorists - they would, at least in theory, be able to anticipate the outcome of monetary policy and adjust prices and wages accordingly. Thus they concluded that it was not just fiscal policy that was ineffective but also monetary policy, even in the short term. Indeed, the last thirty years have seen a steady stream of theoretical articles in mainstream economic journals purporting to demonstrate how demand management can have no effect on output and employment.

However, policy makers and economic forecasters cannot entirely remain within the fantasy world of modern neoclassical economic theory, where all markets are perfect and everyone has perfect information and foresight. They have to deal with the real world.

The 'new macro-economic policy making consensus' - which emerged in the 1990s after the long drawn out polemics between the Keynesians and monetarists of the previous decade - certainly enshrined the victory of the monetarist 'counter-revolution' concerning the role of fiscal and monetary policy. The pre-Keynesian view was to be reinstated: the role of monetary policy was to ensure price stability, or at least a low rate of inflation, fiscal policy should merely be concerned with balancing the

Table 2. OBR's forecasts for economic growth and for the impact of Osborne's planned austerity measures

	2009 out-turn	2010 forecast	2011 forecast	2012 forecast	2013 forecast	2014 forecast	2015 forecast
Implied OBR estimate for the rate of growth of real GDP in the absence of 'fiscal consolidation' as measured by the % annual increase of GDP*	- 4.1	0.9	3.0	3.4	3.5	3.3	3.1
OBR's estimated reduction of the annual economic growth rate due to austerity measures**	0.8	0.3	- 0.7	- 0.6	- 0.6	- 0.6	- 0.4
OBR's estimated rate of economic growth* *	- 4.9	1.2	2.3	2.8	2.9	2.7	2.7

*Derived from OBR June 2010 Table C3 **Source: OBR June 2010 Table C3

government's books. However, it was accepted that fiscal policy could have a significant short-term impact on levels of output and employment – although this impact was weaker and of far less duration than the old Keynesian orthodoxy had once believed.

Schooled in mainstream economic theory, and adherents of the 'new macro-economic policy making consensus', the policy wonks, economic forecasters and SPADs that devised Osborne's Plan A no doubt were inclined to discount the impact that their proposed 'fiscal consolidation' would have on the economic figures for growth and unemployment, let alone the impact it would have on people's lives outside their well-remunerated circles. But they did not ignore it altogether. As can be seen from Table 2 (above), the OBR was able to calculate the impact of the proposed austerity measures on economic growth with great precision.

Indeed, the impact of Plan A on growth was part of, what at the time, must have appeared a rather cunning plan.

The cunning plan

In 2010 there had certainly been growing concerns over the continued weakness of the economic recovery. However, buoyed by the confidence born of the experience of the long upswing and the great moderation, it was widely accepted amongst mainstream bourgeois economic opinion that once the recovery did begin to gain momentum it would rapidly reach the point of take-off. Indeed, for mainstream economists at least, within Plan A's time horizon of five or more years, the danger was not that economic growth would be too weak, but that it might be too strong.

Table 3. Output gap without austerity (forecasts)

	2011	2012	2013	2014	2015
Implied OBR estimate for the rate of growth of real GDP in the absence of 'fiscal consolidation' as measured by the % annual increase of GDP*	3.0	3.4	3.5	3.3	3.1
Year's reduction in output gap as % of GDP if natural rate of growth is 2.25% per year	0.75	1.15	1.25	1.05	0.85
The 'output gap' as % of GDP (assuming an output gap of 4% in 2010)	- 3.25	- 2.1	- 0.85	0	+ 1.5

*Derived from OBR June 2010 Table C3

The economy could be envisaged as a weight on a spring that had been pulled down by the banking crisis. Once the banks had recovered from the crisis the 'weight' would be released and, given the vigour of UK capitalism, would then sharply spring back. Indeed, the more the economy had been pulled down by the crisis the faster it could be expected to spring back. Since the crisis had caused such a sharp contraction, the danger was that the consequent expansion of the economy could be so strong that it could seriously overshoot its equilibrium position thereby giving rise to dangerous oscillations.

So how much of a danger was this? To see how the adherents of the 'new macro-economic policy consensus' approached this issue we must consider two of their key notions: firstly, what we may call the 'natural rate of growth' and secondly the so-called 'output gap'.

It was generally assumed amongst mainstream economists that the continued growth in the working population, combined with the introduction of new technology, organisation and equipment into the production of goods and services, meant that there was a fixed 'natural' rate of growth in the productive capacity of the economy. Of course, it was argued, in the long run the economy cannot grow faster than its potential capacity. Therefore the natural rate of growth could be seen as placing an upper limit to the long term average rate of economic expansion.

However, it was also assumed that the drive of firms to maximise profits and for individuals to maximise the 'utility' would ensure that the actual rate of the growth of the economy in the long term would be pushed towards this upper limit. Thus, it could be concluded, the 'natural rate' of growth would determine the average long term rate of the economy. Hence, by working backwards, the OBR calculated the long term average rate of growth over recent decades and then concluded that the natural rate of growth of the UK economy was a remarkably precise 2.25% per year – as opposed to the 2.5% that had been calculated by HM Treasury.

Now of course the sharp contraction in the UK caused by the crisis had left the economy operating far below its potential. With shops and factories lying idle, 2.5 million unemployed and many more working short time there was plenty of spare capacity. There was therefore ample room for rapid expansion once the economic recovery got underway. At first the economy would be able to grow at a rate far faster than the natural rate of growth. But sooner or later a point would be reached where the spare capacity in the economy would begin to run out. Capacity limits would mean output would not be able to keep up with demand leading to rising prices. At the same time, falling unemployment would strengthen the bargaining position of workers and lead to rising wages. As a result inflationary pressures would start to mount. To head off the threat of rising inflation the Bank of England would be obliged to slam on the breaks by tightening monetary policy.

This would then cause a sharp slowdown in economic growth, if not an outright recession. Indeed, the faster the economy was growing at this point, the harder the Bank of England would have to slam on the breaks. The danger then was if the economic recovery was too strong it could lead to a disruptive cycle of boom and bust.

The crucial question then was how much room was there for economic expansion before inflationary pressures would begin to become a problem? According to the OBR's calculations in 2010 the difference between the maximum level of output the economy could produce before inflationary pressures would start to become a serious problem and the actual level of output – what is known as the 'output gap' - was equivalent to around 4% of GDP. The economy could therefore be allowed to grow faster than the natural rate of growth until this 'output gap' was used up.

In Table 3 (above) we present again the implied OBR forecast for economic growth, in the absence of 'fiscal consolidation', based on the evidence of previous economic recoveries in the UK. Now, as we have previously pointed out, in making their estimates for economic growth the OBR had deliberately erred on the side of caution, and their growth forecasts were widely considered by most mainstream commentators to be a bit on the low side.

As can be seen the OBR had expected that, without the fiscal consolidation, the economy would be growing at over 3% a year – well above the natural rate of growth – leading to a substantial reduction in the 'output gap'. As a result, in 2014, if not earlier, the 'output gap' could be expected to be eliminated. By the following year actual GDP would be 1.5% larger than that necessary to maintain a stable level of inflation. The UK economy would then be rapidly overheating. What is more, with the economy then growing at 3.3% the Bank of England would have to slam the breaks on hard if was to slow the economy down to below the natural rate in order to hit its inflation targets.

But the architects of Osborne's Plan A had their cunning plan. Their proposed 'fiscal consolidation' would be sufficiently large that it would act as a drag on the overall growth of the economy. By keeping the growth of the economy to little more than ½% above the natural rate of growth the scale of 'fiscal consolidation' proposed in Plan A, it could be claimed, would serve to both avert the danger of the economy overshooting and prolong the economic recovery. As can be seen from Table 4, the OBR's estimates for the impact of the austerity measures proposed in Plan A on economic growth would mean that by 2015 there would still be plenty of spare capacity in the economy with little more than half of the original output gap having been used up.

Everyone who mattered could not help but be pleased by the OBR's figures. Mervyn King – who as we have seen had been one of the prime advocates of Plan A - was no doubt well satisfied. As the governor of the Bank of England, he faced two formidable problems over the coming few years. The first was how to manage the government's growing debt. The second was how to unwind the unprecedented monetary policies that had been necessary to save the global financial system, without either plunging the economy back into recession if he moved to unwind too fast, or trigger a huge credit boom if he waited too long. The last thing Mervyn King wanted was the prospect of the Bank of England having to intervene to cool off a rapidly overheating economy. The OBR's figures not only promised an eventual halt to the growth in government debt, but, in doing so, also suggested that the Bank of England's management of monetary policy would not be further complicated by an inflationary boom anytime soon.

The mandarins of the Treasury, no doubt, were also well pleased that the 'fiscal consolidation' proposed by Osborne's Plan A set out a firm plan for halting the rise of public debt but would also would serve to mitigate, if not avoid, the recovery from the 'great recession' ending up propagating a vicious economic cycle of boom and bust.

Table 4. Output gap with austerity measures (forecasts)

	2011	2012	2013	2014	2015
OBR's estimated rate of economic growth taking into account 'fiscal consolidation'	2.3	2.8	2.9	2.7	2.7
Year's reduction in output gap as % of GDP if natural rate of growth is 2.25% per year	0.05	0.55	0.65	0.45	0.45
The 'output gap' as % of GDP (assuming an output gap of 4% in 2010)	-3.95	-3.4	-2.75	-2.3	-1.85

But there is perhaps little doubt that it was the political masters of the policy wonks, economic forecasters and SPADs that were most pleased by the OBR's figures. David Cameron and Nick Clegg could now expect to go in to the 2015 general election not only able to claim that they had made the 'hard and difficult' decisions necessary to put the nation's finances back on track, but they would be able to do so in the middle of a mini economic boom.

So it cannot be said that the architects of Plan A simply denied that their proposed austerity measures would have any impact on economic growth. But the question still remains as to what

Table 5: The immediate impact of fiscal consolidation on the OBR's estimates for economic growth

	2011	2012	2013	2014	2015
Implied OBR estimate for the rate of growth of real GDP in the absence of 'fiscal consolidation' as measured by the % annual increase of GDP*	3.0	3.4	3.5	3.3	3.1
Fiscal consolidation as % of GDP (to one decimal place)**	- 1.5	- 1.3	- 1.3	- 1.3	- 0.9
Resulting estimate for the immediate impact of fiscal consolidation for the annual rate of economic growth	1.5	2.1	2.2	2.0	2.2

*Derived from OBR June 2010 Table C3

**Derived from (assuming a fiscal multiplier of 0.45) OBR June 2010 figure C.3.

extent did they seriously underestimate the effect of their plan for 'fiscal consolidation'.

OBR and the little matter of the 'fiscal multiplier'

As we have seen, the cut backs to public spending and increase in taxes proposed in Osborne's Plan A amounted to £128 billion – close to 7% of GDP - over the course of five years. Now it might be supposed that by taking this amount of money out of the economy the growth of the economy would be correspondingly lower. So, if 'fiscal consolidation' amounts to 7% spread over five years then, other things being equal, we might expect the average annual rate of growth would be about 1.4% points lower than it would otherwise have been. This we might call the immediate impact of Plan A's impact on economic growth.

Table 5 shows the 'fiscal consolidation' for the five years of Plan A and the immediate impact this might be expected to have on the OBR's estimates for economic growth. If we compare Table 5 with Table 4 two important observations can be made.

The first observation is that the OBR's estimate for the effect of Plan A's 'fiscal consolidation' on the annual economic growth rate is less than 50% (45% to be exact) of what we might expect from its immediate impact. The second observation is that even with the immediate impact of 'fiscal consolidation' economic growth should have been close to 2% a year for most of the period. Instead the economy actually grew at barely over 1% in 2011 and by a meagre 0.6% in 2012.[12] So why might this be?

When the government either injects or withdraws money-demand into the economy through fiscal policy it does not simply add to, or subtract from, the existing total amount of demand. The injection or withdrawal of money-demand has further knock on effects – that is things do not remain equal. These secondary effects may be divided into those that amplify the change in fiscal policy and those that tend to diminish it.

[12] Source: *The Guardian.* www.theguardian.com/news/datablog/2009/nov/25/gdp-uk-1948-growth-economy

The most important of the amplifying effects that have been identified is what might be called the Keynesian multiplier effect. The original notion of the multiplier was first put forward by Keynes's student, Richard Kahn, and was specified in terms of employment rather than in terms of income or output. Keynes then deployed Khan's notion of the employment multiplier as part of his arguments against the then orthodox 'Treasury view' that public works schemes aimed at reducing unemployment were futile. As a rather beguilingly simple argument 'Khan's multiplier' has often been central to the more popularised presentations of Keynes's economic ideas.

Using an example more in keeping with the UK economy in the 21st century rather than the 1930s, Keynes's argument goes as follows: if the government spends say £100m to employ the unemployed on public works schemes then this does not simply increase the national level of employment by the numbers employed, and with this the national income by the wages paid to the workers. The workers will soon go out and spend their wages. If the entire £100m has been paid out in wages, then perhaps 5% of this on average might be saved, 40% might go in income tax, national insurance, VAT and other taxes and 30% might be spent on imported goods. The remaining 25% would then be left to be spent on goods and services produced in the national economy. This would produce income in the form of profits, wages and rents for those supplying these goods and services, as well as producing a corresponding increase in employment. Thus the original £100m injected in to the economy would lead to an increase in the national income by £125m. But this is not all. The recipients of the extra £25m would in turn spend a proportion of their augmented income. If this process was repeated, and in each successive round the same proportion of income ended up being spent on nationally produced goods or services – i.e. the 'marginal propensity to consume' remained at 25% - then the original fiscal expansion of £100m would end up increasing the national income by £133m. What is more the amount of employment created could then be expected to be more or less a third greater than that employed on the public works.

So, in this example, a £100m in extra public spending could be expected to increase national income by £133m. Contrawise, if public spending was cut by £100m the reduction in total income could also be expected to be £133m. The 'fiscal

multiplier' would then be 1.33 – i.e. for every £1 injected into, or withdrawn from the economy, national income would change by£1.33.[13]

Now, as we have seen, against the importance ascribed to fiscal policy by the old Keynesian orthodoxy, the monetarists had argued that any tax cut or increase in public spending aimed at increasing aggregate demand would necessarily lead to an increase in the budget deficit and therefore to more government borrowing. Given well-functioning financial markets, and competition for relatively scarce loanable funds in these markets, any increase in the amount of public sector borrowing would end up 'crowding out' private sector borrowing. With less private sector borrowing there would be a fall in private sector incomes and demand. With private spending having its own multiplier, the reduction in national income due to this 'crowding out' effect would eventually more or less cancel out any increase due to fiscal expansion. Contrawise with a 'fiscal consolidation'. A 'crowding *in* effect', it was supposed, would mean that the private sector would soon tend to expand to offset the short fall of national income due to tax rises or public spending cuts.

As a consequence, it had become generally accepted within the 'new macro-economic policy-making consensus' that all these secondary effects of fiscal policy could be expected to have worked themselves out in not much more than a year. At first it might be supposed that the immediate impact of any fiscal expansion or contraction would be augmented by the 'Keynesian multiplier effect', and as a result the fiscal multiplier might briefly become greater than one. But soon the 'crowding-out' or 'crowding-in effect' would start to kick in. Over the course of a year or so the fiscal multiplier would decline towards zero. The average fiscal multiplier over the year – and hence its impact on that year's annual rate of growth figures – could be expected to be well below one.

The OBR's estimate of the average 'fiscal multiplier' over the course of a year was 0.45 – that is, in terms of GDP, 1% of fiscal contraction, or as they put it 'fiscal consolidation', would lead to the annual rate of growth of the economy being reduced by 0.45%. So how did they actually arrive at this figure for the 'fiscal multiplier'? The OBR tell us that their estimate for the fiscal multiplier for the UK economy was derived from a number of empirical studies that have been made over recent years. These studies had resulted in various estimates for the fiscal multiplier that ranged from close to zero to 0.8. The OBR had then picked 0.45 as being somewhere in the middle.

In fact, the actual fiscal multipliers over the last two years have turned out to be 1.2 in 2011, rising to 2.15 in 2012. So why did the OBR get it so wrong?

Now it is true that the OBR had admitted that there could be a significant variation in the fiscal multiplier depending on what tax rates were raised and where the proposed public expenditure cuts were actually to be made. This was because the marginal propensity to consume can be expected to vary significantly between different groups of people. Thus, for example, because poor people tend to save less out of any increase in income than the rich, they can be expected to have a higher marginal propensity to consume. Hence, it might be supposed that cuts to welfare benefits will result in a higher fiscal multiplier than that resulting from an increase in the higher rates of income tax.

In June 2010 the OBR knew the total amount that tax rises were planned to bring in, and the total amount government spending was planned to be cut in each year of Plan A. But, although they knew that the bulk of the tax increases would come in the form of a higher rate of VAT, they would not know in any detail where the cuts to public spending were to fall until the spending review due in the autumn. Therefore, it might be argued that Osborne's subsequent decision to target the welfare budget meant that the OBR could have significantly underestimated the fiscal multiplier.

However, the OBR's estimate of what we might call the composite multiplier of 0.45 had in part been derived from estimates of the various disaggregated fiscal multipliers for changes to different areas of public spending and for different taxes that were likely to occur as a result of Plan A. As was revealed in their re-evaluation of their original forecasts, the OBR estimate for changes to welfare spending was 0.6.[14] What is more the welfare cuts only accounted for less than a sixth of the total public spending cuts. Thus, even if the OBR had assumed the welfare budget would be ring-fenced in the subsequent spending review; their estimate for the composite fiscal multiplier for Plan A would not have been much more than 5.5. Thus Osborne's unexpected attack on welfare benefits is unlikely to have made a substantial error in the OBR's estimate for the fiscal multiplier – particularly if it is assumed that the Keynesian multiplier effect is relatively short lived.

The anti-austerian critics of the OBR might well question the empirical studies on which the OBR's estimate for the fiscal multiplier was based. Certainly there is plenty of scope for ideological

[13] Of course this is based on the assumption that the reaction to an increase in income is proportionately the same as a reduction in income, which is by no means the case.

[14] OBR, *Forecast Evaluation Report,* autumn 2012, p.52.

bias in econometric studies in terms of both the assumptions made in the statistical analysis and in the interpretations of the results. But even taking this bias into account it would seem unlikely that it can fully explain the degree to which the OBR underestimated the impact of fiscal consolidation on economic growth. Indeed, even at the height of Keynesianism, when the proportion of foreign trade was significantly smaller as a proportion of the UK economy and thus the leakage of demand due to purchase of imports was less, the fiscal multiplier was usually considered to be around 1.5, and rarely believed to be higher than 2.

But more fundamentally, there is evidently a problem with the very concept of the fiscal multiplier that is supposed to be a constant but can vary so much. Of course the fiscal multiplier is merely a *post hoc* empirical observation that claims there is an observed regularity between changes in the government's budget deficit and the rate of economic growth. It can only be assumed as a constant on the grounds that everything else remains the same, but the fact that it was estimated to be well below 1 before 2010, then increased to well over 1 in 2011 and then over 2 a year later only proves things have not remained the same.

So what was austerity's accomplice?

So we may conclude that by itself the impact of fiscal consolidation would seem to be an insufficient explanation for what waylaid the economic recovery. The problem then is not so much that the OBR and other economic forecasters underestimated the fiscal multiplier, and hence the impact of fiscal consolidation on economic growth, but that they overestimated the underlying economic growth of the UK economy in the first place. So what caused this slowdown in underlying economic growth?

Although in the short term the state can increase or decrease the growth in the economy by means of fiscal and monetary policy, in the long term the rate of economic growth is determined by the rate of capital accumulation. The rate of capital accumulation depends on the proportion of surplus value that is expropriated from the working class that is re-invested into the expanded reproduction of capital – that is it depends on productive investment. In short it is productive investment that drives the growth of the real economy.

In this respect what has been notable in the period following the financial crisis is the persistence of low levels of investment. As might have been expected, the immediate impact of the crisis on the real economy had been a sharp fall in both profits and investment. However, through a concerted class offensive capitalists have been able to go a long way towards restoring their profit rates by shifting the costs of the crisis on to the working class. However, although profits have increased following the immediate aftermath of the crisis, productive investment has remained well below pre-crisis levels. Indeed, gross fixed capital formation has fallen by more than £50 billion in real terms since it peaked in the first quarter of 2008.[15]

So what has caused this shortfall in investment? This brings us to the second of our conjunctural explanations for what killed off the economic recovery that locates the lack of growth to the persistence of the after-effects of the great financial crisis of 2008.

SO WAS IT THE BANKERS WHAT DONE IT?

As we pointed out earlier, the architects of Osborne's Plan A, along with most of mainstream economic opinion at that time, had come to recognise that due to the after-effects of the banking crisis there might be a period of slow and uncertain growth. Yet they had assumed that this period would not last that long. So it might be argued it was not merely that the mainstream economic forecasters had underestimated the impact of their proposed austerity but that they had also seriously underestimated how long the hangover from the crisis would last.

So did the OBR underestimate after-effects of the crisis? To answer this we must look at how the financial crisis, and in particular its impact on the banking system, may have resulted in a prolonged period of low investment on the part of UK businesses.

Where did all the bankrupts go?

One of the remarkable things about the recession that has followed the financial crisis in 2008 is the surprisingly low level of company bankruptcies. Despite the largest contraction in the economy since the 1930s, the British economy has seen the lowest rate of company liquidations[16] of any recession since at least the 1960s. Now it is true that changes to commercial law due to the Enterprise Act (2002) have made it far easier for companies in financial trouble to avoid being declared bankrupt. As a consequence, the proportion of companies going bust each year

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[15] See a discussion of this fall in investment on the Socialist Economic Bulletin blog: http://socialisteconomicbulletin.blogspot.co.uk/2013/06/why-do-we-have-austerity-and-what-is.html

[16] 'The rate of liquidation' is the number of companies over a given period that have been declared bankrupt and have had their assets sold off to meet the claims of their creditors expressed as a proportion of the total number of registered companies.

had almost halved in the period following the implementation of the 2002 Act. Yet even taking this into account, the rise in the rate of liquidations following the onset of crisis has been, as the Old Lady of Threadneedle Street has put it, 'modest' compared with previous recessions – particularly given the scale of contraction of the economy.[17]

What might have been the reasons for such a relatively low level of bankruptcies? Was it simply because fewer companies had ended up in financial difficulties due to the impact of this recession compared with previous recessions?

Now it is true that, taken as a whole, the 'non-financial corporate sector' in the UK had been in fine financial health on the eve of the financial crisis. Profits had in general been high and, in the years since the millennium, the 'non-financial corporate sector' had become a net saver - and had thereby accumulated substantial financial reserves. Although profits fell sharply across the board in the months following the financial crisis, for the majority of companies profits had not fallen far enough to put them in the red. There were of course sectors, such as construction, property and high street retailing, which had been particularly hard hit by the contraction of the UK economy, and had as a consequence seen profits fall far further than the average fall in profits across the economy as a whole. There were also companies in declining industries, or with 'outdated business models', that on the eve of the crisis had already been earning profits well below the average rate of profit, and therefore had far less distance to fall before going into the red. However, even in such circumstances many companies could still rely on their ample financial reserves to absorb any losses they did suffer.

Furthermore, as we have already mentioned, the crisis had provided an opportunity for capital to launch a class offensive. With surprisingly little resistance, through large scale redundancies, short time working, wage cuts and the imposition of new terms and conditions of employment (including the explosion of zero hour contracts), capital had managed to shift the costs of the recession onto the working class. As a result, in little more than a year following the near meltdown of the global financial system, profit rates were already well on the way to being restored to their pre-crisis levels. Many of those firms that had slipped into the red due to the contraction of the economy were able to quickly restore profitability by slashing costs. For them the period of loss making had therefore been relatively short. The extent to which such firms did have to dip into either their savings or borrow to cover their losses was therefore limited.

Thus it might be supposed that, due to the particularly strong financial resilience of the non-financial corporate sector on the eve of the crisis, the numbers of commercial or industrial firms finding themselves facing bankruptcy would have been substantially lower than might otherwise be expected given the scale of the contraction of the economy.

However, even though British industrial and commercial capital as a whole may have been in fine financial fettle, it is also true that company debt had grown to exceptionally high levels in the years leading up to the financial crisis. As could be expected during such a prolonged period of stable and steady economic growth, many firms in the run up to the crisis had borrowed heavily in order to invest in the expansion of their businesses in the then seemingly reasonable expectation that once the returns from such investment came in they could easily pay off their debts. Other firms, particularly in the construction and property sectors, had borrowed heavily to make profits out of speculation on rising land and property prices generated by the housing bubble.

However, the sharp fall in sales and hence profits that followed the crisis meant that in many cases the profits that these firms were still making were insufficient even to cover the interest they were obliged to pay on their debts. What is more, the downturn meant that these firms might have to scale back the returns they could expect to make in the future from which they had hoped to eventually pay off their debt.

In addition to these firms that had borrowed to finance investment or speculation, there had also been those that had been burdened with high levels of debt due to the craze for 'leveraged buyouts' and the conversion of Public Limited Companies (PLCs) into private equity firms that had taken off in the years prior to the financial crisis. This had left firms burdened with excessively high levels of debt that had been used to finance the buying up of PLC shares. With the fall in profits due to the economic recession many of these firms also found themselves facing problems keeping up with their debt obligations.

As a consequence, on the eve of the crisis, there had been a substantial minority of firms – the 'fat tail' as they have been called – that were highly indebted, and thus in a potentially precarious financial position. Following the impact of the recession, even though they might still be making a profit, many of these firms could be expected to have found themselves on the verge of bankruptcy. Indeed at the time of the culmination of the financial crisis in autumn of 2008, there had been very real fears that stricken

[17] See the discussion of these phenomena in the Bank of England, *Financial Stability Report*, June 2010, pp. 32-33.

banks, in a desperate attempt to stave off their own financial collapse, would slash their lending and call in their loans to this 'fat tail' of firms. This could then lead to an avalanche of bankruptcies, pulling the rest of the more financially sound parts of corporate UK down with them.

So, although the numbers of companies in financial distress due to problems of profitability may have been far less than in previous recessions, this would seem to have been more than offset by the numbers in distress due to problems arising from excessive burdens of debt. So it would seem that the exceptionally low rate of liquidations was not due to fewer firms finding themselves in financial trouble.

So what else may have caused such a low rate of liquidation?

To liquidate or not to liquidate?

It is perhaps generally accepted that it was only the prompt action of governments and central banks across the world following the collapse of Lehman Brothers investment bank that had averted a complete meltdown of the global financial system. The implementation of unprecedented measures of slashing interest rates to unprecedented low levels, 'monetary easing', the nationalisation and 'recapitalisation' of vulnerable banks deemed 'too big to fail' and government guarantees to bank depositors, had all served to stabilise the banking system.

As we shall consider in a little more detail later, in stabilising the banking system, these measures had also enabled banks to sustain existing levels of lending to the 'real economy'. This had allowed banks to exercise a considerable degree of 'forbearance' in dealing with those of its customers, particularly firms in 'the fat tail', in serious financial distress. Instead of demanding their 'pound of flesh', banks could roll over debt that was falling due, allow missed interest payments to be added to the principle of the debt, allow a restructuring of debt to give companies more time to make their debt repayments or even write off a part of the debt to make it easier for them to pay off the rest. As a result, companies in financial difficulties could be kept afloat, thereby reducing the risk of an avalanche of bankruptcies. Thus it was that the vicious cycle of a contraction in the 'real economy' leading to a further crisis in the financial system which would then lead to a further economic contraction and so on, and ultimately leading to a great depression on the scale of the 1930s, was arrested.

Now it should be said that it is quite normal for banks early on in a recession to exercise a considerable degree of 'forbearance', particularly with regard to loans to companies that owe them a substantial amount of money. There are two main reasons for this. First, at the beginning of a recession there is great uncertainty as to how deep and how long it will be. There is therefore considerable difficulty on the part of banks to distinguish between those companies who can be expected to eventually recover sufficiently to be able to pay back their debt more or less in full; and those that are simply going to fall deeper and deeper in debt and are never likely to be able to pay back what they owe.

Second, it often makes sound commercial sense for banks to keep even those firms who are clearly unlikely to be able to pay off the debts alive. If the bank were to force such a company into liquidation immediately, in the middle of a recession, then the sale of the company's assets, from which the bank would hope to recoup some of the money lost on its loans to the company, is unlikely to bring in as much as if they waited until the economy began to recover and the price of the firm's assets had begun to rise.

Indeed, it is for these reasons that the rate of liquidations usually peaks two or so years after the beginning of a recession, that is usually in the early stages of the recovery, by which time the sheep can be sorted from the goats and when the goats will be fattened enough to be slaughtered.

However, in the wake of the near meltdown in the financial system there had been a further and very important reason for banks to exercise a considerable degree of 'forbearance'. At a time when it was still unclear how far governments and central banks had been successful in stabilising the banking system, and how much they had 'left in the locker' if they had to deal with a further round in the financial crisis, banks were under intense scrutiny from the financial markets for any sign of weakness. The last thing the banks wanted to do in such a situation was to record a rising number of loan defaults by forcing companies into liquidation. So long as they were able to more or less pay the interest on their loans, it was far better to keep a failing company going by rolling over its loans, and thereby postpone the 'realisation' of the losses on the debt, until confidence in the banking system had fully recovered.

So it seems more likely that it was the exceptional 'forbearance' that had been exercised by the banks in the wake of the financial crisis, which had been made possible by the measures taken to save the banking system, that has been the main reason for the unusually low rate of liquidations, rather than a low number of firms in financial distress. Indeed, despite interest rates being at very low levels, more than 25% of the total number of registered companies with a turnover of more than £1 million reported that their gross operating profits were lower than the interest due on their debt – implying that they

were dependent on the forbearance of their banks and creditors.[18]

As we have seen, this low rate of liquidation played an important part in preventing the recession from deepening into a 1930's-scale depression; but as we shall now see, in doing so it has played a part in delaying the recovery.

The banking crisis

During the period of what became known as the 'Great Moderation' that immediately preceded the onset of the financial crisis, when no doubt financial and economic turbulence seemed to the up and coming financial whiz kids to belong to another century, banks, and indeed most other financial institutions, had become dangerously 'over-extended'. In order to maximise their profits, particularly at a time when profit margins were being squeezed, banks had sought to greatly expand the volume of their operations. The big commercial, or 'high street', banks had not only sought to expand their commercial operations by increasing the availability of loans to businesses and individuals, but also, through their investment banking arms, had greatly enlarged the volume of their trading on the rapidly expanding global financial markets. However, the banks drive to expand their operations had been limited by the need to hold reserves; both in the form of 'cash' (that is notes and coins plus money held on account at the Bank of England) and safe financial assets, such as government bonds, that can be easily turned into cash.

Cash and 'near cash' reserves are needed by banks for two reasons. First, to cover any shortfall in cash that might arise from the day to day fluctuations in inflows of cash (such as firms or individuals depositing money into the bank or repaying their debts); and outflows (such as firms or individuals withdrawing money or demanding repayment of loans made to the bank in question). Second, a bank needs reserves to cover the risk of incurring losses on both their commercial and investment banking operations, due for example, to 'counter-parties' or their customers defaulting on all or part of their debt, or to falls in the prices of assets held by the bank. Other things remaining equal, the greater the volume of its operations, the more reserves a bank needs to hold.

The problem for banks is that holding cash and reserve assets is not very remunerative. Cash pays no interest, while the returns on government bonds and other reserve assets are relatively small compared with the profits that can be made through commercial and personal loans, let alone from wheeling and dealing on the global finance markets. There is therefore always a tendency for banks, particularly during periods of economic stability when the risk of losses seem minimal, to minimise the amount of reserves held relative to the volume of their commercial and investment banking operations, and thereby become 'over-extended'. Indeed, in order to prevent them from becoming over-extended, a complex set of banking regulations have evolved that require banks to maintain at least a minimum ratio between their volume of lending, and other operations, and their reserve assets - that is their 'capital ratio'.

However, the period of the 'Great Moderation' had seen the development of a number of ingenious financial instruments and banking practices that allowed banks to circumvent such banking regulations in order to expand their operations. The development of 'securitization' of debts and complex derivatives, the growth of shadow banking and special investment vehicles, and expansion of inter-bank lending and 'wholesale funding', had all allowed banks to extend their operations to the far beyond of what would have traditionally been seen as prudent. As a result, the global financial system had become increasingly fragile.

In the summer of 2007 this fragility of the global financial system, together with its opaque complexity, was brought home to everyone when what had appeared as rather minor troubles in an obscure corner of the US mortgage market spiralled out of control leading to what became known as the 'credit crunch'. As we have pointed out elsewhere, the amount of losses due to rising defaults in the US sub-prime market had been relatively small. However, because sub-prime loans had been 'diced and spliced' with other mortgages and then sold to banks and other financial institutions across the globe in the form of Residential Mortgage Backed Securities (RMBS) no one knew where or when losses due to mortgage defaults would appear. The market for RMBS froze, since no one could know if the RMBS they might buy would turn out to be toxic debt. Banks had used RMBS to supplement their reserve assets, since they had been generally viewed by both bankers and regulators as being 'safe as houses', and could be turned into cash at short notice. But now, unable to sell them, there were fears that, with their capital ratios already so low, banks would not be able to find enough cash to settle their debts or deposit withdrawals that were falling due. As a consequence, there had been a serious 'liquidity crisis'. The money markets, where banks lend to each other over very short periods seized up, as banks desperately sought to hold on to as much cash as they could by refusing to lend to other banks.

Having come to the rescue of the banks by 'flooding the banking system with liquidity' in the form of short term loans, the monetary authorities

[18] Bank of England, *Financial Stability Report,* December 2011, Chart 2.21, p.28.

across the world had urged the banks to start raising their 'capital ratios'. This could be done from both ends. First, the amount of reserves held by the banks could be increased. This could be done by reducing the amount the banks paid out of their profits in the form of dividends to their shareholders and bonuses to their directors and star traders. The money saved could then be deposited as reserves in their accounts with the central banks or used to buy reserve assets. Alternatively, the banks could raise capital on the stock market by issuing more shares and use the proceeds to increase their reserves. Second, the banks could raise their 'capital ratios' by reducing their lending and trading operations.

However, the banks were rather reluctant to carry out either of these ways of raising their 'capital ratios'. As far as raising their reserves was concerned, they certainly did not want to cut their bonuses. Cuts to dividend payments or the issuing of new shares risked a fall in the share price. This would reduce the value of bankers' share options and could increase the risk of a hostile takeover by rival competitors. The banks were equally reluctant to rein in the volume of their potentially lucrative lending and trading operations. After all, why should the banks worry when they know that if anything went wrong they had the virtual guarantee that the authorities would bail them out?

As a result, the banks dragged their feet, much to the growing alarm of governments and central bankers who feared that the banks had far too little reserves to weather a further financial storm. In the autumn of 2008 the situation came to ahead when the US Treasury secretary, Hank Paulson, in a remarkable act of brinkmanship, refused to provide state aid to bailout Lehman Brothers – one of the top five investment banks – triggering the near meltdown of the global financial system.

The collapse of Lehman Brothers set off a tidal wave of losses in the banks' investment banking operations, as financial companies went bust, defaults rose and asset prices fell. As a result, the banks' reserves were becoming seriously depleted and their capital ratios began to fall to dangerous levels. As they stared into the abyss, the bankers now had little option but to fall in to line behind the monetary authorities' efforts to shore up the capital ratios of the banks without at the same time triggering a sharp contraction in their lending to the real economy.

First of all, those banks teetering on the edge of bankruptcy, and deemed 'too large to fail', were given the ultimatum of either somehow raising money from somewhere, or else face the ignominy of having to issue and sell shares to the government in order to increase their reserves – and in doing so accept their effective nationalisation. In this way the government and the monetary authorities were able to raise the capital ratios of the weakest banks so they could continue to absorb losses without having to slash their lending.

This was then followed up by what has become known as 'quantitative easing'. The Bank of England set out to effectively create unlimited amounts of money in order to buy up government bonds that were the banks' core reserve assets. The first effect of 'quantitative easing' was therefore to shore up the price of government bonds, and thereby the market valuation of the banks' core reserve assets. This helped stabilise the banks' capital ratios. The second effect of 'quantitative easing' was to reduce long-term interest rates that determined the cost of borrowing for 'companies and individuals' in the real economy. This reduction in long-term interest rates made it far easier for heavily indebted firms and individuals to manage their debt obligations, and thereby avoid default, and it also made it far easier for banks to exercise an exceptional degree of forbearance.

The measures taken to shore up the financial position of the banks played a major part in averting the meltdown of the global financial system, as well as limiting the impact of the financial crisis on the real economy by allowing the banks to sustain their lending to companies and individuals. However, they did not resolve the formidable problem of the huge and uncertain losses the banks had suffered on their investment banking operations as a result of the crisis. For the most part, all these measures had done had been to buy time.

The squeezing of the SMEs

By greatly expanding its role as 'lender of last resort', the Bank of England, along with other central banks across the world, had ensured that the banks had sufficient funds to roll over to meet their immediate obligations. This had allowed the banks to postpone the day of reckoning when the losses would have to be realised for months, if not years. This gave the banks time to build up their reserves to meet both the losses they had incurred on their investment banking operations due to the crisis, and any further losses they may eventually incur on their commercial banking operations due to the contraction in the real economy. It also gave the banks time to raise their capital ratios in order to both improve their financial position and to meet the substantial increase in the minimum regulatory levels that might be expected from the international negotiations concerning the urgent overhaul in banking regulations aimed to prevent a repeat of the financial crisis of 2008.

The banks now had little alternative but to begin in earnest to raise their reserves in order to cover the eventual realisation of losses and to raise their capital ratios. At first there had been little prospect of raising money by issuing and selling bank shares on the stock market. After all who was going to buy shares in banks that had only recently nearly gone bust, and which were unlikely to be able to pay out very much in dividends for some considerable time? Instead the banks had sought to make savings by cutting their operating costs through large scale redundancies, and by pruning back their branch networks. With dividends and bonuses cut back, the savings from this cost cutting could then be funnelled into the banks' reserves.

However, the scope for making operational cuts without impairing the banks' operations and profitability were limited. With the reserves of the banks being steadily depleted in order to cover the stream of losses deferred from the crisis, the attempts by the banks to increase their reserves from the flow of savings made by such cost cutting was like trying to fill a bath when you've lost the plug. If they were to raise their capital ratios at anything like the rate demanded by the monetary authorities it soon became clear that they would also have to curtail the volume of their commercial and investment banking operations.

For much of 2009 the banks had little problem in curtailing their operations. With so many fingers getting burned in the crisis, trading on the global financial markets had fallen well below pre-crisis levels, and the volume of business carried out by the investment arms of the banks had dropped accordingly. Thus there had been little need for the banks to curtail the commercial operations of lending to the real economy. However, by late 2009 the situation had begun to change. As China and the rest of the global south bounced back from the global recession there began to emerge highly profitable investment opportunities in these buoyant emerging economies. Money-capital now began to flow out of the UK along with the rest of the western world towards these regions of dynamic capital accumulation. With much of this trans-global movement of capital flowing through the global financial markets, the previously slow recovery of the business transacted by investment banking became greatly accelerated.

The exceptionally low interest rate policy pursued by the Bank of England and other central banks in order to prevent a sharp contraction of the real economy, had the side effect of reducing the profit margins of the banks' principal commercial banking operation: lending to firms and individuals. This helped to make the profits that could be made by expanding their investment banking operations even more attractive than that of their commercial banking operations. As a result, much to the concern of the Old Lady and her sisters around the western world, the banks began to curtail their lending to the real economy so that they could both expand their investment banking trading and continue to improve their capital ratios. After all, the bankers could argue, in answer to the concerns of both the authorities and their now numerous critics, that by increasing their profits they would be able increase the rate that they were able to put money aside to swell their reserves.

Of course, as their critics were keen to point out, with the revival of casino-style investment banking, all the old practices and attitudes began to re-emerge. The bankers declared that their period of contrition for reckless and extravagant behaviour, which had nearly caused the collapse of the global economy, was over. Bankers' bonuses, and obscenely high rates of remuneration, were soon back, gobbling up a substantial slice of the increase in the banks' profits.

As a consequence of both the recovery of investment banking operations, and the closely associated return of 'bonus culture', the banks have been obliged to curtail their commercial banking operations. As a result, bank lending to both firms and individuals in the real economy has continued to decline over the last four years. The effects of such constraints on bank lending to individuals have been readily apparent in the housing market. By insisting home buyers put up a large proportion of the value of their prospective home as a deposit before they can obtain a mortgage, the banks have been able to strictly ration the demand for residential mortgages. This has meant the housing market has largely remained moribund - with prices stagnant and sales sluggish. The proportion of first time buyers has fallen to record lows, and there has been an unprecedented reversal in the remorseless rise of home ownership.

But perhaps more significant is the continued decline in bank lending to businesses. As we have seen, by exercising an exceptional degree of forbearance for companies in financial trouble the banks were able to play an important part in preventing an avalanche of bankruptcies that could have led to a 1930's-scale depression. But in doing so the banks became locked in to lending to these companies until the economic recovery either floated them out of debt or minimised the losses the banks might have had to realise by pulling the plug. Thus a considerable amount of bank lending was committed to sustaining financially impaired firms. This meant that if the banks were to curtail their lending to businesses then it had to come from companies that were not financially impaired. The main target for the

reduction in business lending has focused on 'small to medium sized enterprises' (SMEs) - since smaller firms are usually a more risky proposition than larger ones. When combined with more than a quarter of firms being 'financially impaired' due to high levels of debt, this constraint on lending for new investments is quite considerable.[19]

Therefore there has been something of a double whammy when it has come to the impact of the banking crisis on business investment and therefore capital accumulation. Firstly, those companies that have come out of the crisis highly indebted and dependent on the banks to keep them going are in no position to borrow any more to invest in expanding their business. Secondly, there are those SMEs that are financially sound but are unable to borrow from the banks. Indeed, over the last four years the most persistent complaint coming from small businesses and their representatives has not been the usual moaning about government 'red tape', but the refusal of banks to lend to fund investment. With SMEs employing 60% of the UK's private sector labour force and accounting for 50% of total business turnover this restraint on investment has been quite considerable.

Thus we can see that that the response of the banks to the financial crisis and its aftermath has continued to act as a significant drag on investment and hence on the growth of the economy. However, the question remains as to why these after-effects of the financial crisis have been so prolonged? Indeed, why did the OBR and other mainstream economists seriously underestimate how long these after-effects of the crisis on the real economy would last?

Zombie capitalism?

In the immediate aftermath of the financial crisis of 2008 there had been many doomsters, from both the far right and the far left of the political spectrum, who argued that the very measures that governments and central banks had taken in order to avoid a great depression had merely created the conditions for a prolonged period of economic stagnation. After all the banks were technically insolvent[20] and were only being kept going by the Bank of England taking the unorthodox and unprecedented step of creating vast sums of money *ex nihilo* in order to lend them the money to pay their debts. In turn these banks were propping up effectively bankrupt companies that were too indebted to invest. The result was a 'zombie capitalism' in which central banks kept zombie banks going so that they could in turn keep 'zombie companies' ticking over. With little investment there could be little capital accumulation and therefore little economic growth. Post crisis capitalism was therefore doomed to a slow march of the zombies.

The neoliberal faith of mainstream economists and policy makers in the efficiency of the 'markets' had been severely shaken by the unexpected enormity of the financial crisis of 2008. In the immediate aftermath of the crisis the notion of 'zombie capitalism' could not be entirely dismissed even by the stalwarts of the neoliberal mainstream. However, by 2010 the OBR and the architects of Osborne's Plan A could take a more sanguine view. The banks had made considerable progress towards raising their capital ratios and had so far been able to absorb the stream of losses on their investment banking operations that had been deferred from the financial crisis. Most banks had not become zombie banks, but were merely convalescent.

Indeed, it could be claimed, that although the total amount of losses that would have to be realised still remained uncertain – given the distribution of maturities of deals made to defer losses which the banks had undertaken in the wake of the crisis were more or less known – the stream of these deferred losses could be expected to peak two or so years after the crisis, i.e. at the end of 2010 or early 2011. Once this stream of losses had peaked, the pressure on banks to curtail lending would then begin to abate. The banks would then soon be able to resume paying dividends, and with their financial position well on the mend, they could start raising money to 'recapitalise' by issuing shares and selling them on the stock market. It was therefore expected that after 2011 the problems of the banks would recede and the drag on economic growth caused by the aftermath of the banking crisis would be significantly lessened.

So what about the zombie companies? Would not the need to keep the zombie companies going still deprive the innovative SMEs of the lending needed to fuel new investment and thus economic

[19] It should be noted that this is a quarter of the total *number* of companies that are financially impaired. This does not mean that 25% of British capital in terms of value (as measured by say turnover) is financially impaired. Companies that find themselves financially impaired are far more likely to be small enterprises involving small amounts of capital. Unfortunately we do not have the figures that might indicate the proportion of British capital that is 'financially impaired'.

[20] In the immediate aftermath of the crisis most banks could be viewed as being 'technically insolvent' in the sense that if they were to be wound up immediately then the amount raised by selling all their assets would not be enough to meet all their liabilities. This was largely due to the high level of uncertainty as regards to the future prospects of both the financial system and the real economy. No one could be sure whether loans would be paid back or other financial obligations would be honoured. As a result, bank assets, such as loans, bonds and other securities, would either have to be sold at a massive discount or would not be able to be sold at all. Thus the potential value of a bank's assets would fall well below the total value of its liabilities.

growth? The answer to this was that not all financially impaired companies were zombies that would never be able to pay off their debts. Indeed, we might divide the financially impaired into three types.

Firstly there were those companies that had found themselves in financial trouble, and in need of forbearance from the banks had done so because they were in new fast growing industries and had borrowed heavily to rapidly expand their business. With the contraction of the economy having been halted by the end of 2009, they could be expected to be back on track soon. With demand rising faster in their ascendant industries than in the economy as a whole, they could soon expect increasing sales and profits that would then lift them out of debt. The bank lending that had been necessary to keep them going through the recession would therefore be released and could go to relax the squeeze on lending to the SMEs to finance investment. Then, sooner or later, these firms will have restored their finances to the point where they themselves could begin to borrow to invest.

Secondly there were those financially impaired companies that belonged to mature industries that, although essentially profitable, had been caught out by the sharp contraction in the economy. These companies could expect sales revenues to grow broadly in line with the rate of growth of the economy. Thus once the economy began to take off these financially impaired firms would also be able to lift themselves out of debt. In doing so they would also release bank lending to the SMEs and eventually reach a position where they could borrow to invest.

Thirdly there were those companies that would never be able to pay off their debt – the true zombies.

The issue then becomes what the proportions of the financially impaired companies were in each type. The scenario of zombie capitalism was only likely if the financially impaired companies turned out to be predominantly zombies. If, in contrast, most turned out to be of the first type then the problem of financially impaired companies weighing down investment and hence real capital accumulation would simply cure itself. As the first type lifted themselves out of debt on their own accord, this would raise investment and economic growth and thereby drag the second type of financially impaired companies out of debt. This would then leave a small rump of zombie firms that could finally be put out their misery without the banks incurring too much in the way of losses. The funding that had kept these zombie firms going could then be diverted to the SMEs and other firms needing to borrow to make new investments.

However, if, as seemed most likely, financially impaired companies turned out to be of the second type, then the problem of financially impaired companies weighing down investment would only be cured with economic growth. This would seem to present us with a conundrum. If the recovery of the financially impaired companies depended on the recovery of the economy, but the economic recovery depended on the recovery of these very same financially impaired companies, then it would seem that the situation would not be all that different from the zombie scenario. The recovery would be stuck.

However, this was to ignore the big engine of investment and economic growth. Not all productive investment is funded by borrowing from banks. Bank lending is certainly the primary source of investment for SMEs, and it plays an important role for medium to large companies, but this is not the case for large corporations that are responsible for a sizable proportion of investment and hence capital accumulation in the economy. Large corporations fund most of their investment plans either through retained profits, or through the issuing of shares and corporate bonds sold on the global financial markets. They are therefore not dependent on the lending policies of the banks.

There is perhaps little doubt that the OBR *et al* had assumed that investment by the large corporations would lead to the revival of investment in the real economy and thereby break the logjam. After all with their profits rising, together with ample financial reserves, the large corporations seemed to have the means and the incentive to start investing on a large scale. However, as it turned out, they didn't. The large corporations have been content to sit on their massive financial reserves – which are estimated to be around £750 billion, i.e. going on for half the Britain's annual GDP. As a result, although profits have largely recovered their pre-crisis levels, investment in the real accumulation of capital has remained well below pre-crisis levels thereby severely restricting the underlying growth of the economy.

So why have the large corporations refrained from investment? The stock answer to this question is summed up in two words – 'business confidence'. Although this is rather a nebulous subjective term that is often used as a fiddle

factor to cover up a gap in explanations, it does have a certain element of truth. So how far can it explain why the large corporations have failed to invest?

Now it can be expected that at the onset of recession, when most businesses will be facing falling sales, the response of capitalists will be one of retrenchment rather than expansion. They will seek to cut costs and prune back their operations, rather than invest in expanding their business by hiring new workers and buying new means of production. However, once the recession begins to bottom out and their sales revenues begin to stabilise this period of frantic retrenchment will draw to a close and a point will come when their thoughts will turn once more towards expansion.

But each capitalist will only decide to commit themselves to making large scale investments in the expansion of their business if they are confident that they will be able to sell the consequent increase in output at a profit. So where does this extra demand come from to ensure the capitalist can sell their increased output. To a large extent it will come from the investment from other capitalists in other industries. If the capitalist is producing wage goods, then the increased demand will come from the extra workers hired by other capitalists. If they produce means of production, the extra demand will come from other capitalists buying new means of production for expansion. Thus the decision on the part of each capitalist to invest in the expansion of their businesses depends to a large extent on their confidence that other capitalists are also intending to invest.

Thus it may be argued that the general level of investment in the economy, and hence the rate of economic growth, depends on the degree of 'business confidence'. If businessmen are pessimistic, or at least believe other businessmen are pessimistic, then investment will be subdued and their pessimism will become self-fulfilling. Contrawise if businessmen are optimistic then they will invest and their optimism will be vindicated. For an economy coming towards the end of a recession, when there still remains a considerable degree of economic uncertainty, the role of business confidence may play a crucial role in either promoting or delaying the economic recovery.

The 'traumatic shock' of the financial crisis, and the consequent sharp contraction of the real economy, undoubtedly shattered the certainties built up during the long upswing concerning the inevitability of continuous uninterrupted economic growth. Indeed, there were huge uncertainties in the months that followed of what might happen not only in the UK but also to the world economy. This uncertainty would no doubt have undermined the 'business confidence' of large corporations and led them to postpone or scale back their large scale investment projects. As the economy began to stabilise towards the end of 2009, the 'business confidence' of the large corporations would have been subdued by the knowledge that large swathes of businesses were unable to invest because they were either too much in debt or else were unable to borrow from the banks. This pessimism about the prospects of a rapid economic recovery would have then been reinforced when it became clear that the government was proposing an unprecedented period of economic austerity that would further depress demand. Then just as the large corporations were overcoming this gloomy outlook they were hit for six by the unfolding of the euro crisis and the impact this would have on their trade with Europe. Hence the depressed 'business confidence' of large corporations can then be seen to have amplified the effects of both austerity and the after-effects of the banking crisis on bank lending in reducing economic growth and delaying the economic recovery.

Yet the problem with this argument is that once the economy had bottomed out at the end of 2009, and it had become clear that there would not be a deep depression on the scale of the 1930s, there was a widespread optimism amongst the bourgeoisie that there would be a rapid economic recovery. This as we have seen was reflected in the views of mainstream economists. Why should the perceptions of the economic situation by large corporations – who usually employ their own economic experts - diverge so much from the sanguine view being put forward by academics and official economists?

More generally, even if 'business confidence' may have an adverse effect on the investment of the large corporations in the short term, it is doubtful to have a prolonged enough effect to explain the delay in the economic recovery for five years. Capitalists do not only invest due to the prospect of making extra profits in the future. They are compelled to invest to defend their capital and their existing level of profits. First, sooner or later, capitalists have to make large investments to replace capital equipment that is wearing out. Such investments might be postponed for a while until the economic situation becomes clearer, but they cannot be put off forever. Second, capitalists are obliged to invest in new and more efficient equipment, production processes or more innovative products in order to head off potential competition. If they do not make such investments then they risk being undercut by their competitors, who are prepared to make such investments, and thereby lose market share.

Thus, although as a subjective factor its impact is hard to quantify, we would conclude that 'business confidence' is insufficient to explain the failure of large corporations to invest. Therefore the delay in the economic recovery cannot be fully explained by 'business confidence' amplifying both the impact of austerity, and the post-crisis constraints on bank lending and investment, on economic growth.

So, if these conjunctural factors are insufficient to explain the delay in economic recovery, are there longer term structural causes that, by depressing the rate of capital accumulation, have depressed economic growth and exacerbated the delay in the recovery of the UK economy? We do not have the space here to consider all the possible long term structural causes that may have helped depress post-crisis growth rates in the UK and elsewhere in the old capitalist heartlands. But there is one, however, that is closely associated with the rise of China and the emerging economies of the global south that we shall briefly consider.

Outflow of investment to the emerging economies

As we have already seen, the rapid recovery of investment banking, which led to the curtailment of commercial banking and hence lending to the SMEs, was to a large extent due to the profitable financial investment opportunities offered by the booming emerging economies. However, the rapid recovery of China and the emerging economies of the global south did not merely serve to restrict banking lending to SMEs to fund investment, it also affected the investment decisions of the large corporations. The prospect of making vast profits from the rapid growth of emerging economies stimulated large corporations to shift productive investment away from the UK. But this has not only occurred directly by means of UK-based large corporations setting up business operations in Asia, Africa and South America but indirectly through their financial investments.

As we have mentioned, the large corporations are said to be 'sitting on £750 billion of cash reserves'. Now of course they do not actually hold their reserves in cash. A large part of the reserves of large corporations will be simply deposited in their various bank accounts. But a significant proportion of these reserves are now being held in the form of financial assets that allow them to appropriate part of the surplus value generated by productive investments in the emerging economies. The Bank of England's ultra-low interest rate policy means that these emerging economy-based financial assets have been offering far better returns than that which the corporations can obtain from depositing money in the banks or buying government bonds.

As a result money that might otherwise have been invested in the UK by the large corporations has been used to finance the rapid growth in the emerging economies of the global south. Thus, to some extent, the rapid accumulation of capital in China and the other emerging economies has been at the expense of slower economic growth in the UK and indeed much of the rest of the old capitalist heartlands. This can be seen as part of the shift in the tectonic plates of the global accumulation of capital. But that is another story.

CONCLUSION

So what has happened to the economic recovery over the past five years? Was the recovery simply held up due to conjunctural factors, such as misguided policy or the hangover from the excesses of the pre-crisis boom; or have there been long term structural factors at work? As we have pointed out, the obvious explanation for the delay in the economic recovery has been the implementation of austerity measures. By cutting too far and too early, it has been argued, Osborne's Plan A killed off the economic recovery. This is an argument that has been consistently been put forward by the Labour party. Osborne's austerity measures have certainly involved unprecedented cuts to public services and the welfare budget. Osborne's Plan A has succeeded in ensuring the working class has taken the brunt of the crisis and has facilitated the acceleration in privatisation and commercialisation of the public sector and the imposition of more 'flexible' labour markets.

However, the scale of the austerity measures in the UK has been nothing like that suffered by the working class in Greece, Spain, Ireland and Portugal - where austerity has led to a downward spiral of falling economic growth, falling government revenues and further austerity. As we have shown, although Osborne's Plan A has undoubtedly acted as a drag on economic growth, it is far from sufficient to explain why the UK economy has more or less flat-lined over the past few years.

This would seem to be supported by looking across the Atlantic. As Keynesians and anti-austerians have often pointed out, the US, unlike the UK, postponed its 'exit strategy' and therefore has not had to endure the three years of austerity. This was due as much to accident as design as the gridlock between President Obama and the Republican-controlled Congress has made it almost impossible to reach an agreement as to how the ballooning government deficit can be brought under control. Nevertheless the result has been that over the last two or three years there has been something of an economic recovery. Yet what the Keynesians and anti-

austerians usually overlook is that by historical standards this economic recovery in the US has been exceptionally weak.

In both the UK and US the financial sector plays a major role in the economy. As a consequence, both the UK and the US economies were badly hit by the global financial crisis. So has the economic recovery been held back by the hangover following the financial crisis of 2008? As we have seen, the continued impairment of the banks and heavily indebted companies has served to restrict the level of productive investment vital to economic growth. But while constraints on bank lending may explain the low levels of productive investment in SMEs and medium sized companies it doesn't explain the 'investment strike' on the part of large corporations.

Thus we may conclude while these conjunctural explanations may go a long way towards explaining why the economic recovery has been so long delayed, they still fall short. There is still room for more long term factors. As we have suggested an important factor has been the rise of China and the emerging economies of the global south. Consideration of such long run factors raises the issue of the long term trajectory of capitalist development. Did the crisis reveal the inherent stagnation of modern capitalism, or did it mark the beginning of a long downswing in capital accumulation? Are we witnessing not the decline of capitalism or merely the decline of the US and old capitalist heartlands? Such issues are unfortunately beyond the remit of this article.

What then of the more immediate future? At present there are signs that the period of slow economic growth in the west is drawing to a close. In the US the economic recovery appears to be picking up speed, in Europe the euro crisis has abated and even in the UK there are early signs of recovery. As the economies of the west pick up speed, China and the emerging economies of the global south have begun to slow down. Hence, with the US once more taking up its traditional role as the locomotive of the world economy, the bifurcation of the global economy may also be coming to an end.

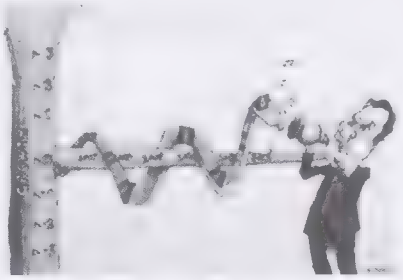
However, it is still uncertain how sustainable the recovery in the west will be. In the US there is still the problem of the 'fiscal cliff'. Sooner or later the US government will have to deal with its ballooning debt. There is always the danger that the brinkmanship between Obama and the Republican Congress will end up leading to the imposition of drastic indiscriminate austerity measures that will derail the economic recovery. In Europe there still remains the danger that the euro crisis could re-emerge.

Meanwhile in the UK there are certainly doubts as to how well-founded the economic recovery will be. The putative recovery in the UK seems is largely being driven by the government reigniting a debt-fuelled property boom through its 'Funding for Lending' scheme that encourages banks to offer easier mortgages. Indeed, the extra lending to homebuyers has so far been simply funded by the banks reducing lending to SMEs. Now given that around a third of firms still in financial trouble are in the construction and property sectors, it is possible that a property boom will lift them out of debt and thereby release bank lending to other firms for productive investment, which might then underpin economic growth. Yet it seems more likely that this 'Alice in Wongaland' recovery will merely provide Osborne with a short pre-election boom that will soon burst.

Furthermore, there is the unprecedented problem of how unwind 'quantitative easing' and ultra low interest rates. With a substantial number of companies still finding it difficult to make sufficient profits to pay off the interest on their debts, a premature rise in interest rates could trigger an avalanche of bankruptcies plunging the economy back into recession.

Thus there are still big question marks over the sustainability of the recovery in the west. At the same time there are concerns that there might be a 'hard landing' amongst the emerging economies of the global south. It seems certainly the case that the rapid growth in both China and the other emerging economies over the past four or five years has started to become increasingly speculative. In China the continued state control over the Chinese financial system has so far been able to engineer a soft landing. But this is not the case in many other emerging economies. There are growing fears that there might be a repeat of the financial crisis that hit southeast Asia in 1997. Such fears came to the fore in the summer of 2013 when even mere hints that the US would begin to unwind its policy of 'quantitative easing' prompted a reflux of 'hot money' from emerging economies such as India. It is clear that any such financial crisis would be on a far greater scale than that of 1997 and could easily trigger another global financial crisis – particularly given that most of the world's banks have yet to fully recover from 2008.

So, in short, what we can say is that the future holds many dangers for the development of global capitalism.



5,000 years of debt?

David Graeber, the anarchist and the legend

There is little need to introduce David Graeber to many of our readers. We might say that this anarchist lecturer in anthropology has reached the status of radical superstar thanks to his involvement in protests and to his bold radical positions and writings.

Graeber has rightly earned a great deal of street credibility. He has been involved in the campaign for the cancellation of 'third world' debt and against the policies imposed by the IMF in the run up to 2000; in the anti-globalisation movement at the turn of the millennium; and later in the US Occupy movement against austerity, which followed the financial crisis of 2008. He is also reputedly the person who coined the phrase 'we are the 99 per cent' which has circulated around the world. And he has been a vocal and consistent advocate of the practices of direct action and direct democracy.

Yet hundreds of thousands of radical people have taken part in large movements and direct action without becoming radical stars. What made Graeber so special was a blessed concurrence of academic skills and an anarchist stance. Being an academic, he has had the time and skills to access whole areas of human knowledge (history, political thought, economics and of course anthropology) and he has learned the communication skills to present his arguments.

In May 2005, Graeber's integrity received an international seal of approval after Yale University refused to renew his contract; this became a cause célèbre which he and his supporters draped in political legend. Graeber was dropped by Yale, the legend unambiguously confirms, because of his political activity, and/or for supporting a student union member threatened with expulsion.

As Graeber the academic was punished for being an anarchist, Graeber the anarchist is forgiven for being an academic.[1] He has now acquired great influence in the anarchist and activist circle in London, and was a star speaker at a recent annual Anarchist Bookfair, eclipsed only by the journalist Paul Mason.

***Debt* as the theoretical product of the recent movements**

There is also no need to introduce David Graeber's book *Debt: The First 5,000 Years* to many of our readers. Again, a blessed concurrence has brought Graeber's history of debt to be seen as the *Das Kapital* of the Occupy movement. The book was published at the peak of debates and protests around the crisis of 2008, and the Occupy movement contributed to its diffusion.[2]

Occupy was a diverse and rather amorphous movement, mainly based on activism, and mostly anti-theoretical. On the one hand, its manifestations away from Zuccotti Park (Wall Street) included a militant commune in Oakland, which expressed a class analysis, as well as practical links to the shutdowns of many West Coast ports in a campaign to support truckers over wages and conditions.[3] On the other hand, Occupy has also promoted a campaign called 'Strike Debt!', which involves both advising people on how to manage their debt (through a manual)[4] as well as buying up and abolishing the debt of random people.

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[1] He is also forgiven for using his writing skills, and an abundance of disposable time, to launch heated attacks on anyone who dares to criticise his book. As Henry Farrell complains: 'Unfortunately, David Graeber is also one of the most toxic people I've ever had the misfortune to get caught in a debate with... unfortunately incapable, as even a cursory Google search will reveal, of treating serious criticism as anything other than attempted delegitimation', ('No, China is not paying tribute to the US, Henry Farrell vs David Graeber, Part CCXXVII'. http://delong.typepad.com/sdj/2013/02/is-china-paying-tribute-to-the-us-henry-farrell-vs-david-graeber-part-cxxvii.html).

[2] As Mike Beggs wrote in *Jacobin*, Graeber became a guru of the Occupy movement, not only as a participant but also as an intellectual presence, his book in encampment libraries everywhere ('We need more grand histories, but 5,000 years of anecdotes is no substitute for real political economy', http://jacobinmag.com/2012/08/debt-the-first-500-pages/

[3] http://libcom.org/library/occupy-oakland-dead-long-live-oakland-commune and http://libcom.org/forums/news/west-coast-port-shutdown-today-12122011

[4] *The debt resisters' operations manual*, http://strikedebt.org/The-Debt-Resistors-Operations-Manual.pdf

This amorphousness of the Occupy movement, and the lack of a coherent theory, provided Graeber with the opportunity to fill the gap. Indeed, there is a good fit. As we will see, his populist category 'the 99 per cent', which is so inextricably associated with Occupy, is as vague and amorphous as his concept of 'debtors'. It can easily include both class forces and cross-class alliances – as the movement has in practice.

Graeber therefore emerged as the leading intellectual from within a movement which was mainly practical.

The combination of street cred and dazzling erudition displayed by his book served to gain a positive response from many activists and even Marxists. Not only did *Debt* achieve popularity in anarchist circles, it also sold an amazing number of copies to a more liberal general public (the original sold 60,000 copies in the first 10 months). It was praised by academics, journalists and even conservative readers.

What was the secret of this success? Firstly, its timing: the financial crisis, linked to signs of popular anger, expressed by Occupy and, internationally by other large movements such as the 'Arab Spring'. It was a moment when the global financial system had been put into question, a moment which called for bold theoretical criticism.

Graeber caught the very right moment. *Debt* denounced and questioned the global financial system in an uncompromising way; and the historical moment (the rebellion of millions of people around the world) endorsed *Debt* with its own significance. Members of the established order, as well as the intellectual left, were prepared to respect this bold book and to accept it as a theoretical criticism of the financial system. However, at the same time, they were perhaps not willing to subject the book to the same level of scrutiny which other books would have received.

Awe inducing and cosy radicalism

While there were a number of critical reviews from Marxists, there were also many positive reviews, not only from anarchist or activist circles, but also in leading journals and even from among the bourgeoisie; Ingo Stützle mentions even a review by the chief economist of the Deutsche Bank group.[5] All reviewers were impressed by the erudition; and left wing readers were impressed by the audacity of the book – for example by the much-praised sentence: 'I would like, then, to end putting a good word for the non-industrious poor. At least, they aren't hurting anyone'.[6] Even among some in the non-Leninist left, criticism was mild and often limited to one or two isolated issues, among the million and one mentioned in the book.[7]

While the secret of *Debt*'s success for the anarchists is clear, its success with the middle class or even bourgeois readers is more interesting. A review of Graeber's new book on direct democracy from a *Guardian* columnist and academic makes it clear, Graeber's radicalism can fill the heart of the intellectual elite with a radical feel-good factor, and still feel reassuring:

> Reading *The Democracy Project*, I felt the sting of his critique. Like many people, years of inconclusive crisis politics have left me feeling jaded and apathetic. Despite its faults, this book woke me up.[8]

It is perhaps *Debt*'s good-heartedness, its implicit vision of 'the poor' as victims, its use of common-sense and ultimately bourgeois concepts of 'violence' and 'theft' as moral benchmarks, that are reassuring. There is nothing there that can be felt as threatening to the sacred principle of private property and the current pecking order enjoyed by academics, journalists and other such delighted readers. But there is more. It is Graeber's idealistic radicalism, his exhortation to creatively 'go beyond' established boundaries of imagination, married to a moderate practical demand (a debt jubilee), that makes the book reassuring: precisely because it's so extreme, Graeber's radicalism can afford to exist on another planet and can be enjoyed by members of the elite with a clear conscience.

But it is not just a question of overall feeling: in Part One of this article we will show that the very reason for writing *Debt*, the need to tackle the 'moral dilemma' of whether debts should be repaid, and the book's structure as a history of

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[5] This was published in the April 2012 issue of economic policy journal *Wirthschaftsdienst. S*ee 'Debt and punishment: a critical review of David Graeber's Debt', Gang of Four at the Columbiahalle, Berlin, 26/3/2011. http://communism.blogsport.eu/2012/06/12/debt-and-punishment-a-critical-review-of-david-graebers-debt/

[6] p. 389

[7] For example, Wildcat's critique starts by praising Graeber as his 'writing bristles with hostility to capitalism' and for not 'engaging in sectarian point-scoring'. They then plunge into scholarly arguments about the concept of 'materialism' in order to attack Graeber's understanding of 'materialism' as simply 'greed', and to criticise him for avoiding the issue of material relations among classes. The fact that Wildcat *feel the need* to confront Graeber's erudition with erudition, however, has the result of softening their excellent critique into a numbing and pain-killing debate between radical intellectuals, which ends up radiating a feeling of cosy reciprocal respect. 'No interest but the interest of breathing', *Wildcat*, 30 June 2012, Wildcat feel the duty to confront Graeber's 'erudition' with erudion. http://www.wildcat-www.de/en/wildcat/93/e_w93_bb_graeber.html.

[8] David Runciman, 'The democracy project: a history, a crisis, a movement by David Graeber – review', *The Guardian,* 28 March 2013. http://www.theguardian.com/books/2013/mar/28/democracy-project-david-graeber-review/

debt across the millennia, betrays an ultimately conservative view of the present which does not threaten the present order of things – not just practically, but even in terms of ideas.

In Part Two we will exorcise ourselves (and the readers) from the magic created by Graeber's universally praised erudition, that has caused so many casualties among the intellectual left's brains – not to speak of among bourgeois readers. Our analysis will lead to the crucial question, which is also the real moral dilemma: *'is David Graeber the new Tommy Cooper?*

Part 1: MORAL DILEMMA AND MORAL CONFUSION

The dilemma... and Graeber's solution

Debt, the first 5,000 years originates from a long and detailed anecdote about an ambassador's party which Graeber happened to attend for 'a series of strange coincidences': during the party, between an olive and a glass of champagne, he failed to persuade a young woman about the justice of the anti-capitalist movement for the cancellation of international debts. The woman could not be convinced – because, she stated, 'debts must be repaid'.

This strong statement seemingly gave Graeber many sleepless nights, and the imperative to resolve what he saw as a moral dilemma: on the one hand, it is universally believed that 'debts must be repaid'; on the other hand, creditors are, morally condemned in every culture. For Graeber, this 'dilemma' is rooted in a general lack of understanding of the nature of debt: a void that needs to be filled in, today more than ever. The global financial crisis has been caused by a corrupt credit system and as such it has caused popular outrage; yet the ensuing protests, lacking focus, petered out and failed to overthrow capitalism. Reading between the lines, this historical failure proves the historical necessity for Graeber's intellectual contribution.

Debt was therefore born to clarify the nature of debt and its moral issues, once and for all. And Graeber gives us, indeed, a solution of the 'dilemma', one so straightforward and convincing that one wonders why nobody has ever thought of it: *there is a crucial distinction between 'moral obligations' and 'debts'.* Moral obligations are based on direct relations; in contrast, debts are obligations based on impersonal money.

While all cultures maintain that moral obligations should be met, this same imperative cannot be applied to debts. Graeber has an unquestionable, no-nonsense argument why debt is morally bad and should be opposed, and repeats it almost every other page:[9] debt and commercial money emerged and have always been based on three obviously bad things: 'war', violence' and 'crime' (sic).

The difference between debts and moral obligations would seem obvious, but is not. As *Debt* shows us, with the ascendancy of money, the religious and cultural hegemony of a ruling class of creditors brought about a 'moral confusion', or, better, a semantic fraud: that of calling 'debt' any moral obligation. Like an original sin, this moral confusion still today splits us apart: it is this confusion that has prevented the ambassador's guest from approving of the anti-capitalist movement, and has stopped the masses from tipping over the present global financial system.

Besides solving the Moral Dilemma, *Debt* gives us much more: a study of various forms of credit and money, with plenty of historical, cultural and anthropological references, quotes, and examples. Sieving through all this knowledge, it also presents us with an intriguing new meta-narrative. Since the invention of commercial money, Graeber says, human history is a cyclical recurrence of two 'ages', characterised by either credit money or currency – the first one pacific and dotted in debt jubilees, the second one belligerent and plagued by debt slavery.

Whose moral confusion?

Graeber's wisdom seems to rest on a solid, broadly accepted common sense, which anyone, including anarchists and leftists, may immediately feel like sharing – who's not against 'war and violence' indeed, so who is not against money and debt?[10]

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[9] This makes about 1,000 times, or feels like.

[10] Graeber adopts the concepts of 'war, violence and crime', with their immediate emotional baggage, from mainstream common sense, and appears uninterested in addressing the anarchist criticism of their ideological connotation. The use

Yet, if we look closely, we realise that making a distinction between 'debts' and 'moral obligations' does not solve Graeber's dilemma at all, because exactly the same dilemma affects both things. Banally, like debts, it is not true that all moral obligations must be met: on the one hand, moral obligations are necessary in any society or community, or even friendships; on the other hand, moral obligations towards a *Pater Familias* in ancient Rome, a priest in ancient Egypt, or a feudal lord in medieval Europe were part of the ideological glue that kept together relations of inequality and exploitation.

Thus, while it is clear that certain moral obligations should be met, it is also clear why peasants, faithful, serfs, etc. should rebel against moral obligations towards kings, lords, priests, etc. Also, and crucially, behind these moral obligations lurked the threat of violence.[11] Even from the viewpoint of Graeber's benchmarks of 'violence' and 'crime' (sic) there is then a problem: violence and the threat of violence do cut across *both* debts and moral obligations.

With the use of a fictional time machine, we can imagine a guest at a party in a medieval castle, telling Professor Graeber, between a piece of pheasant and a glass of mead, that all moral obligations must be met, and condemning the recent peasants' rebellion – what would he reply to this? The real reason why nobody has ever devised Graeber's solution of the 'moral dilemma' before Graeber himself is not because we have always missed something really clever, but because the 'discovery' that moral obligations are not the same things as debts is a non-solution, which explains nothing at all.

Debt relations and Lycra socks

It is not only that Graeber's solution of the 'dilemma' is a non-solution: Graeber's dilemma does not exist in the first place! The 'dilemma', which many of us do not share, is actually the product of an abstract question: whether 'debts', in abstract, 'must be repaid'. Any debt, made by anyone to anyone, in any circumstances and contexts, in any historical situations, by individuals or nations, etc.

But debt and forms of money have different meanings in different human contexts, and they cannot, on their own, explain human relations. Banally, a debt relation does not really tell us anything much about the balance of forces between the two parties. As Ingo Stützle correctly wrote:

> 'Various actors engage in credit relationships. Debtors can be states, wage labourers, or businessmen, for different reasons... The perspective of credit, however, causes them to all look the same; *the reason* for the credit relationship that arises appears irrelevant'.[12]

It is only when we look at our concrete relations (who keeps the wealth away from whom, who enjoys the results of whose work, etc.) that everything becomes clear and *any moral confusion disappears:* the dominated and the exploited *know* which moral obligations or debt would be good not to meet if we could!

The whole meta-narrative of *Debt* and its reading of history is in fact based on such empty concepts, which pretend to explain human relations and history, but in fact impoverish them. Starting from such poverty of concepts in order to explain a wealth of complex human relations, it is like trying to say something deep about different feet, starting from a pair of Lycra socks that fit all sizes. Thus Graeber has to give to debt a one-size-fits-all meaning, which is expected to apply to all subjects and epochs: he adopts the moralistic and 'radical' common sense that the 'victim' is the debtor and the 'villain' is the creditor, an understanding which simply stands on its head the bourgeois 'common sense' that the creditor is in the right and every debt must be repaid.

It is not a surprise that this abstract approach lands Graeber in unnecessary and quite entertaining muddles, for example, when he has to explain why the US, obvious international villains, are the biggest international debtors in the world.[13]

When the debtor is the villain

The US is not the only problem for Graeber. One example which is more interesting, because it relates to our daily feeling of being robbed of our life, day in day out, is waged work.

If we work for an employer, we spend many hours of the month in their office, shop or factory, expecting to be paid a wage in exchange. Yet this exchange is not simultaneous: the payment of our wage is suspended to the end of the week or month. As Graeber correctly notices, the fact that

of 'theft' as a moral/political benchmark is even more problematic.

[11] Graeber glosses over anything that contradicts his simplistic distinction of 'debt' and 'moral obligations'. Throughout the book, he consistently plays down exploitation, slavery, sexual domination, tribal wars, in societies where money was not in use or coins did not circulate in large quantity. So, for example, we hear that slavery was 'morally accepted' before money, and became nastier later; that sexual inequality was not so bad before money; or that the serfs of the glebe in medieval Europe had a relatively happy life with respect to Roman slaves. The comparison of forms of domination with a miser-o-meter is not really what one would expect from a radical mind.

[12] 'Debt and punishment: a critical review of David Graeber's Debt' (op. cit.).

[13] In Part two we will enjoy Graeber's acrobatics to get out of this muddle.

we work is ensured by this suspension, which is in fact a debt relation. In a social relation fundamentally based on exchange only a relation of debt can oblige individuals to do something for other individuals.[14] All this seems quite correct and consistent with the rest of *Debt* and its spirit: debt relations underlie the relations of rich and poor, exploiters and exploited, as it has always happened during the last 5,000 years... Yet, there is a little detail that does not fit: the employer, who is the obvious villain, owes money to the employee at the end of the month and is thus, in this respect ... a debtor.

This, however, does not sound right. If, according to Graeber's moralistic approach, the employer is the obvious villain, he must be a creditor, by hook or by crook. In order to impress us with his erudition and shows us that this is the case, Graeber makes us travel to a village in the Pyrenees, where direct relations overlap with relations of exchange. An employer who gives a job to someone in his provincial town favours someone he knows, and this generates eternal gratitude. Like in a Sicilian provincial town the employee feels the obligation to give a present to his employer every Christmas. See? Says Graeber, this is a debt relation, where the factory owner is the creditor. And, he likes to add, no presents can ever pay the debt back – the debt to the factory owner is un-repayable.

If we leave the Pyrenees and go back to Brighton, however, we will find that here most economic relations are based on exchange and not on people knowing each other. In Brighton it would be funny if an Asda cashier owed Christmas presents to the board that selected him:[15] what is peculiar in the Pyrenees is the fact that the 'debt' is actually *not a debt, but... a moral obligation,* based on direct relations, and not inherent in the exchange of wage and work. And one which has been abolished in a developed capitalist context as in the Asda store in Brighton.

We are not criticising Graeber for not being a Marxian... but for not being Graeberian! Having already read half of his book, we believed that his great discovery, the one that solved the moral dilemma of the last 5,000 years, was that 'debt is not the same thing as a moral obligation'! And we were given detailed examples of such moral obligations extracted from anthropological studies, which corroborated such a qualitative distinction; and showed that moral obligations are based on direct relations, and as such *can never be repaid* in terms of money or valuable presents. We are therefore surprised that the same person, who wrote the previous half of the book seems unable to spot one of these moral obligations when he stumbles into it, up in the Pyrenees.

The truth is that, as debt relations are empty shells, it does not matter that the employer is the debtor and the employee is the creditor. In fact, the same wage relations can be seen as a debt or a credit from different points of view, or whether the worker is paid in arrears or in advance.[16] The truth is that a wage relation is *not* based on who is the creditor and the debtor, but on who is the exploiter and the exploited. Graeber fascinates us with clever abstractions and little stories and lures us away from the concrete, and crucial, issues: the relations of power in capitalism, which we need to understand if we *really* want to change the world.

Graeber is even unable to understand the basis for power and exploitation in any distant space and time, let alone today. This is clear when he equates the relation of parents and children with that of feudal lords and serfs, and when he states that, in order to be an aristocrat, one simply needs to behave like an aristocrat.[17]

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[14] Marxians and Marxists may question this interpretation of the wage-labour relation, as we do not really exchange labour with a wage – we put our labour capacity in our employer's hands, instead of selling to the employer the product of our labour. This subtle distinction is at the basis of the apparent 'self-expansion' of a monster: capital.

[15] This does not make their exploitation less nasty.

[16] Graeber would not have needed to make desperate recourse to pre-capitalist relations in a mountain village to prove that the employer is the creditor, if he had adopted James Mill's theory, which looks at production from the point of view of the bourgeoisie. According to Mill, the employer advances the wage, and will be only repaid when the final product is eventually sold – this may take a long time. However, in this perspective the debtor is *the working class as a whole* and each individual worker owes *nothing* to the employer after pay day. The problem here, however, is that we are speaking about collective relations: there is no space for Graeber's simplistic relation debtor-creditor as victim-villain. Ingratitude is rather expressed by the collective refusal to act as the working class, when for example a strike disrupts the scheduled production!

[17] These statements are consistent with the astonishing reduction of *all* human behaviour, in any space and time,

Do we need to explain to him that, even if Baldrick behaved like an aristocrat he would have only controlled his turnip? And what made a feudal lord a feudal lord was the *actual* control of land and wealth, and so warriors and weapons?

The mystery of inequality in capitalism

Besides failing to understand today's relations of power, Graeber fails to understand the origin of inequality in capitalism, and consequently, the necessity of the use of force ('violence and the threat of violence' as Graeber would put it).

One of the most entertaining subplots of *Debt* is Graeber's attempt to turn on its head the bourgeois myth, maintained by Adam Smith, that exchange creates equality and civilised relations; and his dismal failure to find a clue of what's wrong with exchange, and with Smith himself.[18]

In order to argue against Smith, Graeber first plunges into detailed accounts of tribal rituals which involve exchanges of objects and/or women and asserts that exchange is based on violence because it take place between strangers 'at an inch of each other's throat'.[19] But, probably realising that this is not good enough, later on he gives us a different non-solution: he explains that proving that Smith is wrong does not, really, matter after all! You see, he says patronisingly, exchange will always be contaminated by hierarchical relations; if we will never have pure exchange why do we need a theory that explains what's wrong with it?

In order to destroy Smith, and with him the ideological attachment that restrains our imagination from conceiving of a world where people, not money, count, we need to show why the problem is *not* the pollution of commodity exchange by hierarchical relations – *but it is commodity exchange itself;* and Graeber is simply unable to do this. On the contrary, under a thin coat of radical anti-capitalism, *Debt* exposes itself as an unashamed apology for the pure market exchange and its inherent equalitarian character.

Unable to find a problem with exchange, Graeber resorts to a moralistic distinction between historical examples of markets using currency (bad and originated/sustained by militaristic states) and those using credit (state-free and good).[20] Such a distinction does not make sense today, as both currency and credit are integral part of our system – the same system that vulgar classical economy sought to justify, by stressing and blessing the aspects of freedom and equality of ideal exchange.

Graeber must then turn his eyes, romantically and uncritically, towards markets based on *personal* credits in the past, which he calls 'pure' and 'friendly' (sic).[21] Sadly, what Graeber sees as 'ideal' in markets stems precisely from the fact that he is looking at societies where non-market relations overwhelmingly shape the relation of buyers-sellers, lenders-creditors. Yet he is happy to project our present relation of exchange to such a mythical past, forgetting its peculiar relations of domination, and to create his own myth of a pure and ideal market – *which is, precisely, the vulgar classical economists' ideological error.*[22]

The culmination of Graeber's pretentious project to attack Smith ends up in a *cul-de-sac.*

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into three 'moral principles' (communism, exchange and hierarchy). As Mike Beggs noted, Graeber 'gives a basically ethical vision of history, where great changes are a result of shifting ideas about reality' (op. cit.). This is not very different from many bourgeois political analyses; and, if it leads Graeber to say that we are aristocrats if we act as aristocrats, it is a daft one.

[18] Except that he nicked ideas from a Persian manuscript. Graeber's attempt to attack the classical political economists' 'myth' that money has its origin in exchange, by insisting that in fact money had its origin in debt, is also entangled in amusing contradictions.

[19] The only evidence of this seems to be Brazilian tribal gangs that have substituted gang fights with ritual meetings, where they swap personal items, mimicking the violence of a real fight. Does this really suggest that exchange is violent by nature? As a skilled anthropologist Graeber cannot see the more obvious fact that, through the adoption of a ritual exchange, the gangs' relation has become, in fact, less... violent.

[20] Mike Bragg describes a 'story... told essentially from a populist liberal or even libertarian perspective: it was the state and the big businesses stepping all over the little guys and their purer exchange relationships' (op. cit.). Plenty of sophisticated theories on the relations of states and markets as co-constitutive social forms exist already, for us to need Graeber's one, which is incapable to see beyond abstractions such as the 'use of currency' and a state guaranteeing/imposing the currency.

[21] As we will see later, he even locates historically such a pure market: in the Islamic caliphate. After Graeber was confronted about this on a Libcom thread, he resorted to say that the whole thing was something he wrote without really believing it, but only to wind up the Christian right!

[22] Even Adam Smith was not so crass. He was in fact critical of an ideal system left to pure market relations, and suggested in *The Wealth of Nations* that in a pure market the producers would inevitably take advantage of consumers and workers.

This is disappointing for a book which, as Marxian magazine Wildcat notices,

> 'wants to sweep aside all of western political economy (in his view in which Marx features only as a minor irritant) and set something else up in its place'.[23]

If Graeber were serious about sweeping previous theories aside, he should have bothered to study them first: he would then have discovered that in 1867 Marx already explained how, paradoxically, the exchange of commodities creates inequality *precisely by being equal and free*. He indeed showed that what we need to critique is *a new world, unseen in the past*, where our separation from resources and materials combines with our freedom to 'exchange' work for wage and money for products, enslaving us to the capitalists through this same freedom of the market. This was a devastating attack on the bourgeois common sense that market relations can just be considered 'friendly', an attack which Graeber seems unaware of, or unable to grasp.[24]

The limits of whose struggle?

The main problem with *Debt* then is its basic assumption: that one can understand human relations, to the point of being able to create a meta-history of the world, by looking at the abstract forms of debt and forms of money. We have seen that the use of elastic categories can only lead to an equivalently shapeless theory made of Lycra, unable to explain power and exploitation; a theory that therefore needs to fallback on, and borrow its understandings from, *mainstream common sense*, cheap moralism or radical banalities.

This basically abstract approach has also consequences on Graeber's vision of history: the use of debt and forms of money to explain 5,000 years of history is in fact inherent to a fundamentally conservative vision of our future.

Indeed, if debt and money explain human relations instead of human relations explaining, and changing, the nature of debt and money, no historical, social, political, change will ever change our basic interactions as debtors and creditors, or as money exchangers. So we end up in a theory where nothing will ever change under the sun – history as the endless alternation of two 'ages' of currency and credit money. Excitingly, this 5,000 years of the same is peppered by periodic debt jubilees and/or rebellions against debt; yet these jubilees and rebellions are against the eternal, or better, eternalised, debt that has existed during the last 5,000 years, and which will continue to exist.[25]

Graeber is mentally and politically trapped by this claustrophobic, and a bit Nietzschean, theory. In one of his many radical outbursts, he patronisingly exhorts us to go 'beyond' the limits of our revolutionary imagination; yet his own imagination boils down to the practical proposal of the n^{th} debt jubilee since Whatshisname Pharaoh I of Pyramidland.

Graeber's enthusiasm for debt revolts is also the result of this limitation. Real revolutions, like the French one, or the Spanish one, differed from farmers' rebellions in ancient times precisely because they have gone beyond debt cancellation and have *consciously* criticised the role of the Church and the aristocracy or, in the case of the Spanish revolution, the capitalist relations of production and alienation. Only if we look beyond the empty forms of debt and forms of money we can have a real movement away from the present. This will turn a rebellion that only demands conservative remedies, into a revolution.[26]

In the next Part we will show that Graeber's socks, and the theory based on them, are not just shapeless, but have gaping holes.

[23] op. cit.

[24] It would not be fair to criticise Graeber for not having read Marx, but it is fair enough to criticise him for pretending to be a great expert: in his exceedingly erudite bibliography he references Marx's *Capital* in German, as if he had read and understood the original edition, while it is plain that he had not even reflected on *Marx for Beginners*.

[25] Ingo Stützle too noted the same problem, in the following terms: 'Graeber does not recognise what money and credit mean in pre-capitalist societies, what distinguishes them from each other... Historically speaking, a social obligation is not the same thing as credit, and even credit is not the same thing as credit.'

[26] Again, Ingo Stützle writes: 'Debt cancellation is indeed a correct demand, but only when the social relations that constantly bring about indebtness are abolished as well. It seems difficult to reach an agreement with Graeber on exactly what these social relations are.' Graeber tweeted in reply 'honestly, I'm very sad. I really wanted to engage with Marxist thought and threw out ideas to do so. Reviewers ignore them and just repeat orthodoxy'. We have shown that it is not a question of orthodoxy – the question is that Graeber's 'ideas', which in fact reflect and reinforce lots of liberal 'common sense' and liberal ideology, expose themselves as inherently conservative, under a thin coating of radicalism.

Part 2. THE CONJURER.

The threads

Debt: the first 5,000 years is indeed a monumental work. Since the beginning, it presents great complexity – it splits into a number of intriguing threads, which suggest the promise to coalesce into one theory. We managed to disentangle a few:

- To present a history of social relations on the basis of a history of debt, with the aim of proving that the present 'credit system' is not new, but it existed 5,000 years ago. What credits? Anything goes: debts of subjects to their kings, individual's debts to 'neighbours'(sic), international debts between states, etc.
- To show that the history of money in the last 5,000 years is characterised by the alternation of phases of two forms of money: credit money, which Graeber calls 'virtual money', and 'currency', which he also call 'coinage' and 'bullion'.
- To show that today we live in a phase of 'virtual money', and that this is just the return of one of those two historical phases.
- To argue that 'an age of 'virtual money should mean a movement away from war, empire-building, slavery, and debt peonage... and towards the creation of some sort of overarching institutions... to protect debtors' and to explain why the present 'phase' contradicts this sort of historical law.
- To show that commercial money (especially, it seems, in the form of currency) is based on 'war and violence and crime' (sic). He promises to dispute Adam Smith's assumption that exchange is the basis of civilisation, and prove, instead, that exchange contains elements of violence.
- To prove that when commercial money substitutes what he calls 'social money' communities break down and debt replaces moral obligations based on direct relations. As a sub thread of this thread, he wants to show that slavery changes nature with commercial money and becomes morally unacceptable.

A theory of money or Chase the Lady?

However, to our disappointment, all these threads never coalesce into the promised grand theory. They randomly surface, dive, glimpse and dive again, escaping any attempt to follow them to any logical conclusion. Within the threads, key concepts are never clearly defined and often merge in to each other, without warning.

For example, the 'cool' expression 'virtual money' is used to broadly cover extremely different forms of credit and/or money based on credit. We are told about forms of personal credit 'between neighbours', forms of 'social' money used to consolidate social relations, forms of impersonal credit that can be circulated among strangers, forms of payments in barley from pyramid rulers which were accounted by pieces of silver, the use of coins (or shells) whose value was guaranteed by a state, and about the US dollar, detached from gold and created 'out of nothing'... and still we do not know what 'virtual money' actually is.

In fact we don't even know what money is. Graeber does not give us a theory of money – but glimpses of various theories. He mentions the classical economists' theory. He mentions, a bit more in detail, some state theories of money, which say that currencies are created by states through a taxation system. He mentions some other theories that say that currencies were originally created by belligerent states in order to sustain their armies; and turns them into a moralistic and pacifistic argument.

All these interesting theories are deliberately left unconnected. On the one hand, Graeber seems very enthusiastic about the state theory of money, and seems very keen in convincing us

that 'a coin is effectively an IOU', that 'there is no fundamental difference between a silver dollar... a banknote... or a digital blip' and that even 'a piece of gold is really just an IOU'. '*This must be true,* he adds, because even when gold and silver coins were in use they almost never circulated at their bullion value'. Yet, he also embraces, with the same enthusiasm, theories connecting coinage with imperialistic wars, and ends up proclaiming the existence of ages which differ because of the crucial difference between 'virtual money' and currencies.

But if coins are never circulated 'at bullion value', and form of credits can circulate like currency, what money is 'virtual', and what is currency? If there is a distinction between currency and credit, there must be a distinction between the 'IOUs'.

Graeber never discusses the issue. At some points, he seems to suggest a distinction between forms of credit money, which were based on personal relations of trust, and money guaranteed by a state, which can instead mediate exchanges with strangers, 'thieves' and soldiers – he seems to indicate that the first form of money characterises a 'virtual money' age.

At some other points, Graeber seems very keen to stick to a cruder distinction: 'virtual money' = 'any credit', either personal or impersonal; non virtual money = coins, or chunks of gold – just like that. He is indeed adamant that our 'plastic' credit money is 'virtual money' and that our age is the return of an age of virtual money. Yet today's credits are so impersonal that they can be sliced, repackaged and sold by investment banks, without anyone having any idea of who's the debtor – so the distinction of personal and impersonal forms of credit is not really what seem to define the particular 'IOU' that he calls 'virtual money'.[27]

Also, Graeber puts lots of stress on to the fact that in 1971 the dollar was detached from gold, and associates this fact to a new 'virtual age' – thus giving to gold a special status among other 'IOUs'.[28]

By the end of the book, Graeber has not made up his mind, but has said everything and the opposite of it. But the truth is that he cannot pin down the concept of money, or 'virtual' money, or value.[29] And, paradoxically, he cannot because money is *the starting point* of his construction: he starts with money in order to understand the society that uses it.

There is a fine line between considering forms of money or credit as *expressing* our social relations, and *producing* them. Graeber has fallen into the trap of this fetishism: he sees money and credit as shaping our social relations. He teaches us, for example, that the currency imposed by nasty states turns 'morality into a matter of impersonal arithmetic', that capitalism is simply credit money gone wild, seeking *interest* and expanding for its own sake, and that the detachment of the dollar from gold will bring about great changes in our life and history...

What Graeber says appears, at first sight, reasonable and true. In a world where value and money do dictate people's lives, where the interest of 'economy' is seen as more concrete than our neighbour's starvation, it is not a surprise that people may uncritically think that money can *cause* the way we relate. Graeber's book is an ideological product of our times.

This abstract beginning causes Graeber's conceptual void. If money is the starting point for explaining our relations, then what is money in the first instance? Well, it cannot be anything at all then:

> 'All I have said so far merely serves to underline a reality that has come up constantly over the course of this book: that money has no essence. *It's not 'really' anything*; therefore its nature has always been, and presumably always will be, a matter of political contention'.[30]

It is precisely because Graeber cannot understand the essence of value and money that he cannot explain them. This is why he cannot handle the subtle differences between a piece of gold, a cheque or a coin, and avoids the problem by calling them all 'IOUs', and, later, just 'nothing'.[31] This is why he can only mention lots

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[27] Perhaps however, credit money cannot be circulated by... soldiers and thieves?

[28] It is often stated that money and forms of debts are 'essentially' IOUs. Yet this reduction of money and debts to IOUs is merely a pedagogical device that is used to explain the complexities of money and finance to the uninitiated. IOUs are merely the simplest form of debt. They arise between two *private* individuals, I and U. In contrast money and more complex debts are transferrable and therefore *social*. They are in fact 'I owe the bearer of the note (whoever they may be)'. This distinction between a private one to one relationship of debt and a social relation of debt is crucial to understanding the history of money and debt.

[29] The other truth is Graeber's ignorance. We encourage our readers to read Beggs's interesting article, which shows that Graeber seems unaware of Keynes's writings, of Smith's treatment of the relationship between credit money and gold, of important issues regarding the state theory of money, of international macroeconomics – in practice, he has treated economics and monetary theory in the same way he has treated Marx's *Capital* or, as we will see soon, the history of ancient Greece.

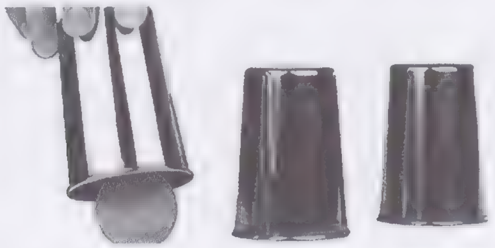
[30] Saying that money is a 'matter of political contention' sounds so radical, but it does not say anything and does not change the fact that money is undeniably something, *socially*.

[31] We are fighting for the abolition of value and money, but we cannot appreciate Graeber's apparently radical statement that money is 'a matter of political contention'. Without understanding why, for example, gold universally appears as

of theories of money but cannot resolve their contradictions and create a consistent theory.

As Graeber starts from money instead of people, he ends up failing to understand *both*. This non-concept is utterly unable to explain anything else. As it's not clear what 'virtual money' is, for example, Graeber cannot even convince us about what sort of 'virtual money age' we live in: is it an age of personal direct relation? Not really. Is it an age where, simply, the dollar is detached from gold? Or what?

But it is precisely the laxity of concepts and ideas that makes the exciting magic in *Debt*: it allows Graeber to jump from thread to thread, from contradiction to contradiction, leaving us in continual expectation of something deep. It is an entertaining Chase the Lady: the reader forgets what Graeber wanted to prove just a paragraph before, and stares in admiration at the wealth of theories, ideas, little stories and myths, which are flicked by Graeber the conjurer under their eyes. The result is a new Tommy Cooper, whose wrong and clumsy tricks are so surprising and entertaining so to create a media star.



Chase the period

It is precisely this fetishism, Graeber's fetishism of money, that makes his book so fascinating. Besides giving innumerable dimensions to the key concepts, it also adds a sort of magic. The book gives us a Law of History, intriguingly based on forms of money: an age of 'virtual money' is a peaceful age, not dominated by overwhelming states, and with institutions protecting people from debt peonage/slavery; and an 'age' of currency is a belligerent age, dominated by a state that imposes its coinage to sustain its army, and where people are allowed to become debt slaves. Graeber divides the history of the world in to 'ages' and claims that all civilisations in the world fitted in with the right 'age' (for example the 'Middle Ages', from 600 AD to 1450 AD, is a 'virtual money' age for all). It's amazing, what money and credit can tell us about these ages, and their reoccurrence!

Yet, if we put aside Graeber's fetishism, and look at people instead of money, this 'theory' would lose its magic, and would turn out to be quite banal. In a society dominated by direct social relations we can have an economy based on forms of personal credit and trust – a banality. Exchange among strangers can only be mediated by currencies based on precious metal (or otherwise guaranteed by a state) – another banality. In the first case the existence of direct relations can potentially prevent extremes of poverty and debt slavery and, in the second case, creditors would morally afford to be merciless – again, quite banal.

However, if we really start to seriously look at the real people and how they interact, the banalities above become very complicated – we would discover how debt and money change nature in different social contexts and epochs and why today money and credit are strikingly different from the past. This complexity would also, we are afraid, undermine any attempt to periodise history in any simple way, and would undermine Graeber's grand narrative.

It is not difficult to see, in fact, that Graeber's periodisation is problematic, and that, every single time it is applied to any real historical case, it never *really* fits. Either there are gold and coins but not imperial wars, or there are wars but not coinage, either there is slavery but not any form of money at all, or there is a belligerent state which nevertheless forbids debt slavery... In a nutshell, humans are too complicated for Graeber's 'theory'! But Graeber does not seem too worried. Rather, as soon as he stumbles into facts which contradict his theory, he just cleverly highlights the bits that fit in, hides the bits that don't fit in, and distracts us from considering the whole.

An example of this method, the Middle Ages. The period between 600 AD and 1450 AD was, according to Graeber, dominated by 'virtual' money, and so, peaceful. Was it? Certainly not the Islamic caliphates, whose empire's unity was based on military and aggressive expansion around the Mediterranean and inland. The caliphs *did* pay their armies in a state-backed *currency* (dinars); they relied on a developed market which circulated this currency, and on the imposition of taxes payable in this currency. They had slaves, which constituted their armies; they also exploited slaves in Middle Eastern mines – this exploitation helped to finance the development of buildings, arts and science during the Abbasids' 'golden age'. Last but not least, the caliphate managed to focus military aggression against the 'infidels', stopping bloody inter tribal wars and guaranteeing peaceful and safe commercial routes within its empire.

All this is a problem for Graeber. Instead of admitting the inadequacy of his theory, Graeber tries to patch it up: although the state was militaristic, he says, the civil society remarkably had a 'virtual money age' character because...

something with value (so without understanding the essence of value and money) Graeber's proclamation is only an empty slogan.

...because, while the 'kings' waged 'their' wars inland, peaceful exchange could be carried out on the sea...

... because, the 'kings' paid their armies in coins but civil society used cheques, or even 'shakes of hands'[32]...

...because their slaves were *not* debt slaves but were captured in war and so were morally accepted...[33]

...and because law and order in the peaceful Bazaars had nothing to do with the state but was administered by Islamic priests... [34]

Graeber cannot see how in a mercantile economy, which made money expand, credit and currency coexisted – they could not exist without each other. He cannot see how trade needed internal peace and how this peace was based on a continuous war of expansion. He cannot see how the 'peaceful' market relations in the Bazaar necessitated the threat of violence to maintain a class society in equilibrium.[35] He cannot see how personal and impersonal relations can coexist too – relations of trust among members of the elite, who can 'shake hands', and lack of trust towards the poor, whose hands were chopped instead of shaken.[36]

By neglecting all the problematic issues above, Graeber sees the market relations under the caliphate as ideal and 'friendly', with a wide-eyed attitude that is rare in an anarchist.[37]

The massacre of ancient Greece

Another example of Graeber's method is its treatment of ancient Greece.

To 'prove' that exchange and coinage are intimately connected to 'war, violence and crime' (sic), Graeber goes on at great lengths about coinage in Ancient Greece and the violence of the Greek empire. It is true indeed that the Athenian empire established itself, and imposed its currency, in large areas of the Mediterranean. And it is true that the taxes, paid in this currency, served to sustain the Athenian naval force, which imposed a *Pax Athena* in the Mediterranean and kept the commercial routes free from pirates. All true. However, a serious and honest theory about the relation of currency and war should have discussed why Athens's belligerent rival Sparta had a social structure based on war and military discipline and still it was a command economy, not an economy based on exchange.

This is not a minor issue, but one that reveals a lot about exchange and its connection to violence. Graeber wants to prove that commercial exchange is directly related to violence but he fails. He fails because he cannot see, and enjoy, the amazing paradoxes of exchange. Exchange does need to establish peaceful relations, by displacing violence out of sight. This is exemplified, precisely, by the difference between Sparta and Athens. Both Sparta and Athens's economy is based on slavery. While Sparta's command economy needs to involve its citizens in continual war in order to get slaves, the Athenian ruling class can debate about philosophy all day, because they can buy slaves on the market.

Graeber cannot see how exchange is connected to *both* peace and violence in a complex way. He cannot see how, using the threat of violence, the Athenian empire established peaceful commercial routes which were needed for a stable economy and the establishment of one currency – like... the caliphates for example.

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[32] This can be true only if the caliphate issued chocolate coins, as their soldiers must have eaten the coins.

[33] By Mohammed(sic).

[34] ...who were part of the theocratic state.

[35] It is funny to notice that half a book earlier Graeber did his best to attack Adam Smith and insist that exchange contains elements of violence; and to insist that exchange individualises and antagonises people. But now he proclaims that when there is no state control of prices and state police, we have an ideal market, perfectly civilised and pacific. In fact Graeber was right. Exchange *is* rooted in a fragmented relation among individuals and *does* involve violence – and Islam is the example which confirms the Graeber of page 32 and contradicts the Graeber of page 282... In a society divided into rich and poor, a combination of violence and ideology is necessary to ensure that the poor keep their hands off the rich's merchandise. It is true, there was no state police, but that's simply because the sacred respect for private property was introjected in the civil society's religion, and because the Islamic priests were in charge of applying *Sharia* law to any hands caught out of their respectful place.

[36] Credits among the elite in the City of London at the beginning of the century were based on trust. Does this testify to an 'age of virtual money' then?

[37] Such a disingenuous enthusiasm seems to harmonise with a disingenuous appreciation of current political Islamism. This will not really convince anyone in the UK who got involved in the anti-war movement and had enough of the (far from disingenuous) pro-Islamist communalism of the Socialist Workers Party and Respect (see 'Croissants and roses - New Labour, communalism, and the rise of muslim Britain', *Aufheben* #17. http://libcom.org/library/croissant-roses-new-labour-muslim-britain

As we have already noted earlier, Graeber cannot digest complications. His theory is a theory in black and white; or, better, it's like one of those John Ford films where the baddies wear black hats and the goodies wear white hats. The whole thing is so difficult for him that he just prefers to simply call the Athenian regime 'Greece', and dismiss the problem of Sparta in a footnote.

This is only an example of the massacre that Graeber's basic 'theorisation' inflicts on facts, and to the important things that facts can reveal. If he's done this to ancient Greece, what has he done to medieval India? Or ancient China?

Maybe we are a bit too picky. Most readers are too impressed by his erudition to be picky like us and ask questions.

Graeber's International Relations

However, some questions inevitably came – Graeber could not avoid, for example, an avalanche of criticism of the way he treated the current relations between China and the US – as more people have better knowledge of these matters than of ancient Greece.[38]

In Part 1 we saw that Graeber's simplistic and moralistic understanding of the debtor-creditor relation is that of victim-villain; and that, if such 'common sense' is applied to current international relations it is a problem, as the United States, obviously villains, are the biggest international debtors.

Feeling that his understanding of the world based on debt relations is under substantial strain at this point,[39] Graeber has to 'prove' that in this particular case the relation of debt-credit, victim-villain, is somehow inverted – and suggests that the states who lend money to the US do so 'at gun point', because they are military 'protectorates' of the US.

Yet, this does not seem to be right either, as China, an undeniably big creditor, is nowhere near to be described as a 'protectorate' of the US. To get out of a deepening hole, Graeber returns to it 300 pages later and stuns us with his knowledge of ancient China. Ancient history is safe: the political readers may know all about the present international relations, but nothing about the Han dynasty! So he *can* say to us:

> 'Since the Han dynasty [the Chinese empire] adopted a tribute system whereby, in exchange for recognition of the Chinese emperor as world-sovereign, they have been willing to shower their client states with gifts far greater than they receive in return... silk and porcelain...'

... and this is why China is now compelled to lend money to the US!

We know nothing about the Han dynasty. However, we noticed that, throughout his book Graeber makes strenuous efforts to *prove* that the kind of symbolic gifts like those of the Han dynasty could not, and should not, be reduced to mundane commercial money. He explicitly says that gifts of commercial money would actually cause offence. Let alone money lent, which has also the offensive clause of having to be repaid in mundane money, and with an interest!

The Graeber Law: the US dollar as 'virtual money' and the dawn of a new era

Graeber gets into another muddle in analysing our current 'virtual money' times, which, according to his periodisation, started with the collapse of the Bretton Woods agreement in 1971.

Graeber claims that this collapse was rooted in war: in order to rescue the US finances from the strain of the Vietnam war, the US government detached the dollar from gold and floated it on the exchange market. This increased the price of gold, which the US stored in abundance, while decreasing the price of dollars, stored by other, poorer, countries.

The fact that the dollar was 'floated', Graeber adds, has allowed for the creation of money 'out of nothing': thus these are new times of 'virtual money', Graeber concludes.[40]

However, there is a problem. Graeber has struggled for 300 pages to reach his magic Law of History: that describes how an age of 'virtual money' should be:

> 'If history holds true, an age of virtual money should mean a movement away from war, empire-building, slavery, and debt

[38] See for example Henry Farrell, 'The world economy is not a tribute system'. http://crookedtimber.org/2012/02/22/the-world-economy-is-not-a-tribute-system and 'No, China is not paying tribute to the US, Henry Farrell vs David Graeber, Part CCXXVII', (op. cit.).

[39] Despite the fact of being made of Lycra.

[40] For example, on p. 367

peonage... and towards the creation of some sort of overarching institutions... to protect debtors'.

But this is not true today. Graeber himself theorises that 'the new global currency is rooted in military power', as the US imposes that the dollar *is* value on other countries 'at gun point'... Also, undeniably, the US is still waging wars and the IMF is still imposing merciless repayments of debts on poor countries.

This contradiction seems to threaten Graeber's Law of History and his grand theory! But Graeber does not flinch: wait and see, he says, the US and the IMF will be punished by contradicting Graeber's Law: the new era has only lasted 50 years and the US and the IMF are bound to collapse – evidence for this, the default of Argentina and the anti-globalisation protests which he said, obviously exaggerating a little bit, 'managed to almost completely destroy the IMF'.

We are just puzzled by the way Graeber has derived his Law of History and how he got to the point of predicting our future – magic. Hundreds of pages before, he looked at empires of the pre-capitalist past, which managed to establish one currency in the areas they controlled. When the empires collapsed, the 'law and order' imposed by the imperial army collapsed, trade disintegrated on a large scale and nobody could circulate or guarantee one currency. As a consequence, exchange got localised and based on credit agreements among local people (which Graeber called 'virtual money'). Also, for obvious reasons, imperial wars disappeared.[41] This tells us something very banal:

A banal historical observation:
When there was a collapse of some empire in the pre-capitalist past,
the empire's coinage gave way
to 'virtual money'

Yet, by swapping things under our untrained eyes for 300 pages, Graeber the conjurer has by Chapter 12 managed to transform this into an intriguing Graeber's Law of History:

Graeber's Law of History:
When there is an age of virtual money
this means a movement away
from empire building.

This law seems to apply when there is any 'virtual money' of any kind, whatever social relations or balance of powers it actually reflects!

In fact, our credit system does not reflect the disintegration of any empire at all, and it is not a form of credit among villagers at all: it more than ever reflects the existence of impersonal (even international) transactions, which can only be supported by states and within an international system of power. But Graeber is a Believer. However his law originated, it tells us: that today we live in an age of 'Virtual Money' (whatever this is) and as a consequence of this the US empire and the IMF cannot live long (whatever the reason).

We were tempted to write a long treatise on why China lends money to the US, how it is that today's wars and debt poverty can coherently coexist with the present form of money, why the dollar has been the dominant currency without the need of being imposed 'at gun point', or to explain why Graeber has confused the unorthodox practice of quantitative easing (which *does* create money out of nothing) with practices which normally underlie the emission of US dollars. But we will not do any work, because a reply to the mess above would only serve to endorse it with intellectual credit.

Instead, it can be a healthy exercise to perform the ultimate exorcism: let's trespass on Graeber's own territory and his anthropology.

On women and cows

Let's go back, for example, to medieval Ireland, where debts of 'honour' were accounted in 'cumal' (womenslave girls) and 'cows', and let's first enjoy Graeber's analysis. He starts by wondering: 'Why *women?* There were plenty of male slaves in early Ireland, yet no one seems ever to have used them as money'. Why women, then? Graeber inform us, minutely, about finicky legal rules which measured the honour price of each male, female, king or serf and comes out with the answer:

41 Whether the end of imperial wars marked the beginning of never-ending wars among city states, tribes or plunders from armed raiders within previous pacified areas, it does not matter – this kind of 'violence' was not exerted by a nasty imperialist state, and disappears through a hole in Graeber's socks.

> 'All this... makes it possible to understand... why [women] were kept as unit for reckoning debts of honour... if honour is ultimately founded on one's ability to extract the honour of others, it makes perfect sense. The value of a slave is that of the honour that has been extracted from them'

Well, in fact, no... this does not explain why *women*, and he knows it! So he adds:

> 'Honour is a zero-sum game. A man's ability to protect *the women* of his family [from becoming slaves] is an essential part of that honour.'

All this is cleverly written but still does not really explain why a man cannot measure value in terms of his own honour, which he needs to protect too. Also, one may have questions concerning the honour of cows... But who dares to object? This is a tantalising theory, precisely because it is obscure, and makes us feel a bit stupid and in awe.

Still we will dare to propose another, less tantalising, theory. Let us imagine that, a long time ago, disputes arising from breaching issues of honour caused wars among Irish tribes, and that captives and cattle were the obvious loot in wars and raids. Let us imagine that, in order to avoid actual and bloody wars, the disputes were settled, by male tribal chiefs, in cows and/or women – who were probably considered more disposable than men.

Obviously, harming the honour of a king would have caused a bigger war, and bigger potential loot than the honour of a subject; and this can perfectly explain why honour was measured in amounts of women and cows. This can also explain that, many years later, even after slavery ceased, debts and transactions were still accounted in 'women' and 'cows'.

We don't promise that our anthropological theory is true, but having a laugh in making it up, and seeing that it makes more sense than Graeber's erudite waffle, has been an interesting experience, with some undeniable radical value in its own right.

As a conclusion

When, long time ago, we commented on Leopoldina Fortunati's mathematics, we said that we dislike 'political' writers who try to create awe in their readers, by using tremendous culture, intimidating intellectual constructions (or even big formulas), especially when this dazzling stuff turns out to be banal, or even meaningless.

The political theory we love is one which aims at sharing our common experience of struggle, and this practical theory cannot project awe. Intellectual distance is instead necessary between the radical academic world and people who are engaged in struggle with their exploiters – it is necessary when, at the end of the day, the academic has only his academic things to say, things that are miles away from the experience of the 'poor' or whoever he speaks about.[42]

The fact of having been with 'the poor' in Zuccotti Park and the fact of having dressed his book with radical slogans does not change our opinion about Graeber and his book. At the end of the day, *Debt: the first 5,000 years* is only a pretentious book that is not going to help us in the current struggle and does not teach us anything we need to know. It is our practical knowledge, created by us and by many people before us out of struggle, that Third World debts should not be repaid – and we see no 'moral dilemma' in this.

It is our practical knowledge that our society is inherently exploitative (and that exchange of commodities needs forms of coercion). It is our practical knowledge that makes us say which debtor or creditor is 'the villain'. And we don't need Graeber's contradictory arguments to get out of any moral confusion, simply because we don't share it with Graeber.

[42] To illustrate this point we have our little anthropological anecdote delivered to us by members of Boycott Workfare. BW is a grassroots campaign group composed of people on benefits, whose ideas reflect the claimants' experience of state harassment and of a life on extremely low incomes. In the wave of recent successes which attracted media attention, BW members were invited last year to talk to university students. Speaking about this meeting with us, they described, shaking their heads, an American lecturer who was visibly treated with veneration by the students: 'during the meeting, this lecturer proposed a direct action to the audience: to whitewash the DWP's building. I firstly though he was joking, but then I realised that it was too insistent for a joke and just stared, speechless, at this silly man who mimicked the use of a paint roller...'. Irreverence is an integral part of a healthy class perspective.

Intakes: An activist's perspective on the fracking struggle at Balcombe

AUFHEBEN'S INTRODUCTION

It is relatively uncontroversial now to state that the 'environment' and particular struggles around it are linked to capital and therefore can express the underlying class struggle. We argued in 1993 that the then-burgeoning UK anti-roads movement was an attack on capital – it was an attack on the mechanisms of expanding value.[1] The possible objections to this argument – that most of those involved did not understand their actions in anti-capitalist terms, that participants had a coherent identity of struggle only in the sphere of culture, that they were not directly connected with the means of production, and that in their composition they were thoroughly heterogeneous (comprising odd alliances of respectable middle class types and 'full time' eco-activists) – rested on a kind of workerism. The critique of this kind of workerism was developed through our engagement with another kind – that of the Italian *autonomia* movement - which suggested that 'the social factory' (meaning the relations of production) extended beyond the literal factory walls. If capital was 'everywhere' then antagonism was 'everywhere' too.

However, implicit in our appropriation of some ideas from *autonomia* (and much more explicit in later critiques)[2] was the argument that 'the social factory' was not sufficient as an analysis. The moment of truth in 'orthodox' accounts of the limits of the 'new movements' was that the conscious ideas of these groups were liberal and bourgeois – often dogmatically so; so the struggles in and of themselves were not necessarily anti-capitalist. But we argued that both the 'orthodox' and the autonomist needed to grasp these struggles in terms of their possible *trajectory over time* rather than simply (aspects of) their immediate appearance - as either 'struggle' (autonomists) or 'liberal' (orthodox). Through the very fact that these anti-roads groups were in

[1] 'Auto-struggles: The developing war against the road monster', *Aufheben* #3, 1994

[2] http://libcom.org/library/aufheben-autonomia

collective confrontation with the forces of the state over a key aspect of the capital-accumulation infrastructure, they could *become* anti-capitalist forces.

Our analysis of this potential dynamic was partly borne out by subsequent developments, as the anti-roads movement morphed into the anti-car 'Reclaim the Streets' and the anti-capitalist movement of June 18th 1999.[3] Those involved in these struggles didn't simply change their language and identities to consciously anti-capitalist and communist subjectivities, but made practical connections with workers – tube workers, dockers – in 'traditional' working class locations and industries in order to escalate the struggle and build a movement.

Arguably, that high point of 'environmental' struggle has yet to be surpassed. Subsequent 'environmental' direct action campaigns have not developed into a movement of the scale of the anti-roads movement.

Yet climate change, which is now almost universally agreed to be linked to capitalist industry and consumption, is clearly a massive point of tension for contemporary capitalism. In the last issue of *Aufheben*, we analysed how climate change has led to the development of new industries and new locations of value expansion, including an emerging 'green capitalism'.[4] It therefore remains a potential basis for collective struggle, that might combine workplace actions with a class analysis of climate change. In the UK, an important example of this was the occupation of Vestas Blades, a wind turbine manufacturer, in 2009.[5] When their factory in Newport on the Isle of Wight was threatened with closure, the younger workers occupied. They also made nationalization for 'green jobs' one of their demands. However, while there was solidarity from a climate camp and from other groups, the struggle did not spread, and the occupation ended without clear concessions.

In the last issue, we also pointed out that fossil energy prices will inevitably continue to rise and will become increasingly uneconomical. As we discussed, among the non-conventional fossil fuels that are now being exploited are shale oil and shale gas. These fossil fuels are extracted through fracking – hydraulic fracturing. While shale gas might give off fewer CO_2 emissions than burning coal, the fracking process releases methane gas, which is an even greater contributor to climate change. Thus while there are numerous local objections to fracking, the global problem of 'anthropogenic' climate change – the need for endless expansion of value through damaging industrial developments and patterns of consumption – means that the fundamental problem of this method takes us back to the nature of capitalism itself.

Currently, the most high-profile mass direct action campaign against fracking taking place in the UK is not far from *Aufheben* Towers, in the Sussex village of Balcombe. We have been following it with interest, particularly as it has developed into a focus for the national campaign. It is now at the forefront of both the UK's radical environmental direct action movement and the government's propaganda war.

The concern of local people with issues such as earthquakes and water supply in fracking locations has led some to characterize them as 'ignoring the science'. A number of fracking experts have been on the mass media to explain that people's fears are mistaken and that the practice, which is used around the world, is safe (or at least no less safe than other fuel extraction methods). However, what is of important in this conflict is perhaps less the extent to which protestors are right on every point of fact, but more their lack of trust in the government, who are actively promoting fracking as a positive development, for economic as well as energy-security reasons. It is not that people are necessarily ignorant or irrational in their opposition to new scientific developments but rather they are not ready to believe a government and industry they perceive has no compunction about lying if it is in its own political interests (Recent scandals in the food industry, in policing, and in the behaviour of the press have contributed to this decline of trust in 'the establishment'). Thus the 'local' struggle over fracking is not just a local dispute, but both reflects and connects with a wider set of social relations of mistrust, delegitimation and even antagonism.

For this *Intakes* article, we asked one of our friends who had been along to the Balcombe site

[3] http://libcom.org/library/aufheben-inside-movements
[4] 'The climate crisis... And the new green capitalism?', *Aufheben* #21, 2012
[5] 'The red shoots of resistance? Recession struggles in the UK', *Aufheben* #18, 2010.

to share with us his experience of the campaign and to give us his perspective on its prospects for escalation.

Aufheben
Brighton, September 2013

AN ACTIVIST'S PERSPECTIVE ON THE FRACKING STRUGGLE AT BALCOMBE

I was asked by the good folk at *Aufheben* HQ to write about my experiences of visiting the recent fracking protests in Balcombe in August-September 2013 from the perspective of a retired eco-warrior. I was involved in the UK anti-roads struggles throughout the 1990s, and saw their development from the direct action protests against the M3 extension through Twyford Down (which had an almost exclusively environmental focus), to the No M11 campaign in London and its emphasis on housing issues, and later evolving into Reclaim the Streets' broader focus on social justice issues and a general critique of how we interact with social spaces [6]. This resulted in environmentalists making links made with explicitly class-based workers' struggles (such as the Liverpool Docks dispute in the mid 1990s[7]). Their development of a wider perspective closely follows my own and others' political development from idealistic (and sometimes quite naive) hippies to much more critical analysts of the class struggle. It is interesting to see how the struggle at Balcombe seems to currently have a similar potential for such growth and development. However, the struggle is also at a relatively early stage, with any analyses of capitalist production and/or class issues still in their infancy. This campaign may also need to confront similar problems that previous struggles have faced. What follows is my own observations of the struggle at Balcombe and an attempt at some form of analysis of what the campaign has so far achieved, how it has developed, and the issues it currently faces.

Introduction: How the fracking struggle began and developed at Balcombe

There has been small-scale fossil fuel extraction in Sussex for over a century, with an interest in oil exploration at Balcombe since 1986.[8] In 2008, the drilling exploration company, Cuadrilla bought a Petroleum Exploration and Development Licence (PEDL) for 270 square miles of West Sussex, including the area around Balcombe Estate. Local opposition began to grow as people became aware of Cuadrilla's proposals, and in January 2012, the then CEO was grilled by 300 locals at a public meeting[9]. Direct action protests began towards the end of July 2013, when around 250 people successfully prevented vehicles carrying drilling equipment from entering the site. This resulted in a massive police presence the following day and ever since to clear blockades in front of the gate, and force Cuadrilla's vehicles through the crowds that gathered in opposition, brutalising and/or arresting those who resist. This pattern continued throughout early to mid August, complemented by other innovative actions, such as: protestors super-gluing themselves to the gate, locking on to wheelchairs, and a group of 'frack-fighters' using an old fire engine to blockade the site entrance. The Balcombe Community Protection Camp (BCPC) was set up along the road-side by the site entrance and grew into an alternative village running along the verge towards Balcombe village. There was also briefly a splinter camp squatting the field next to the drilling site (which included tree-houses and protestors wandering round with climbing harnesses clunking away) before it was evicted by the police in mid-August.

[6] See the following *Aufheben* article for a history of the Twyford Down and no M11 campaigns and how the UK anti-roads movement developed in the early 1990s; http://libcom.org/library/auto-struggles-aufheben-3

[7] See 'Docks and dreadlocks come together', *Schnews*, 1996 http://www.schnews.org.uk/archive/news93.htm

[8] http://frack-off.org.uk/fracking-in-balcombe-a-community-says-no/

[9] http://frack-off.org.uk/caudrilla-boss-mauled-at-west-sussex-public-meeting/

The 2nd-3rd week of August saw a significant escalation of the campaign (and resulting police response), as the national campaign group no Dash For Gas[10] decided to re-locate its planned Reclaim the Power (RTP) camp to Balcombe in solidarity with the campaign. This was held from August 16-21st and attracted experienced activists from across the UK and beyond, culminating in a series of nationwide actions on 19/8/13. This period also coincided with a huge increase in police reinforcements from across England, with more force used against protestors, and a dramatic increase in arrests. Since the RTP camp finished, there have still been up to 100 cops deployed per day to escort the trucks. From September 1st a rolling blockade of the site began, with some protestors managing to disrupt operations temporarily by locking on to vehicles as they approach[11] and most recently blocking the road with a tripod[12]. However, apart from these set-piece spectacles, the protests have sometimes developed a more symbolic nature, as protestors are often so heavily outnumbered, there is little more they can do than walk with the cops as they escort the trucks onto the site. The struggle at Balcombe has inspired other campaigns across the British Isles, such as in Somerset[13], Wales[14], and Ireland[15]. Therefore, these localised protests have the potential to develop into a coordinated nationwide movement against fracking that could scare off the relatively small exploration companies currently seeking permission to expand the drilling and/or fracking projects to a scale that will make them economically viable for bigger companies to exploit.

Sussex public order unit doing photo-shoot for their latest bondage look

Response of the state

As with previous direct action campaigns, the state's response has been massive, and at times quite disproportionate to the numbers of protestors at Balcombe. The amount of police resources used and their subsequent costs (a reported £2.3m already spent by 23/8/13 and up to £3.7m predicted by the end of September 2013[16]) reflects this sense of overkill, and shows how seriously the state takes the potential significance of these protests. This has led to comparisons with the 1995 Shoreham Harbour live export protests,[17] where the costs of policing almost bankrupted Sussex police (the force had to apply for central Home Office funding after spending its annual public order budget in the first couple of weeks of 1995). Reinforcements have been drafted from at least 11 police forces nationally (including the Met), leading to bizarre scenes of cops from as far away as Cornwall wrestling with protestors in previously sleepy Sussex lanes. There has also been the opportunity for the cops to try out a whole assortment of new kit, with cops in riot gear patrolling inside the drilling site, and escorting the trucks onto the site in body armour for a brief period after the RTP protests. Cuadrilla have also hired G4S (famed for the 2012 Olympics security debacle) to employ retired Gurkhas to guard the site inside the perimeter fence, who are reportedly being paid just £2.60 p/hr for this dubious honour (has anyone told Joanna Lumley?!).

In keeping with the recent national trend towards attempting to create more dialogue between cops and protestors on demos, Police Liaison Officers (PLOs) seem now to be fully embedded in Sussex's response, and smiling coppers in blue tabards have become a ubiquitous presence at Balcombe. However, protestors remain wary of them, and they tend to only engage with them on a very superficial level as they are seen by even the most ideological pacifists on the camp as little more than friendly intelligence gatherers. It is also debatable how much influence these PLOs have on the ground anyway.[18] Their relatively junior level[19] means

[10] http://www.nodashforgas.org.uk/

[11] http://frack-off.org.uk/latest-news-from-the-great-gas-gala-day-40/

[12] https://twitter.com/28_DaysLater/status/375530069294583808/photo/1

[13] http://www.frackfreesomerset.org/

[14] http://frack-off.org.uk/local-group/frack-off-gower/

[15] http://frackingfreeireland.org/

[16] http://www.bbc.co.uk/news/uk-england-sussex-23796432

[17] http://www.eco-action.org/dod/no5/shoreham.htm

[18] During the RTP camp, there was a stand-off with the cops over vehicular access to the site. Discussions with the PLOs

that more senior officers can and do over-ride the PLOs if there is a clash of views in policing strategy. Furthermore, as the protests have continued, they now seem to do little more than hang out on the periphery of police lines, and every now and then they attempt to explain or justify some of their colleagues' more forceful *for their latest bondage look*
actions to protestors (with little apparent success).

Unsurprisingly, given the high police presence, there have also been many arrests[20], either from the large-scale detention of protestors during blockades, or done retrospectively by snatch squads after the alleged incidents. As with previous campaigns, the cops have exploited their ability to set draconian bail conditions on those they arrest. However, this strategy has backfired somewhat, as they tried to ban arrestees from such a large area around the site (including the main London to Brighton railway line), that their lawyer successfully argued in court that this was a politically motivated attempt to stifle the protests. Therefore, all conditions were dropped and unconditional bail granted - a pattern that has been repeated at other court hearings since.[21] More recently, there were co-ordinated efforts between the police and local authorities to clamp down on the protests. For instance, in early September, West Sussex County Council (WSCC), who own the land where the BCPC is based, began the first stage of eviction proceedings by serving a notice to quit on the camp. The following day, the police also imposed S14 restrictions of the Public order Act (POA), meaning that protests were only supposed to happen in an enclosed pen away from the site entrance. These attempts to stifle the protests were largely ignored, and the struggle continues undiminished at the time of writing this article. In a final ironic twist, the campaign had a minor victory in the High Court on 16/9/13 when the judge rejected WSCC's eviction claim as 'flawed' on the grounds that they had not considered the right to protest, and adjourned the case till 8/10/13, which is after the imposed deadline on drilling operations, and

A local's response to Vivienne Westwood when she asked him to change her grandchild's nappy

were getting nowhere, so people went over their head to a more senior officer to negotiate access, and had more success.

[19] The PLOs that Sussex use seem to be either be PCs or sergeants (the lowest ranks in the police hierarchy). This may reflect the low importance attached to their role.

[20] By the middle of September 2013, there had been over 100 arrests in total

[21] http://investigatingbalcombeandcuadrilla.wordpress.com/2013/08/14/original-map-of-bail-conditions-imposed-on-arrested-cuadrilla-campaigners/

when the protests at Balcombe are expected to finish[22].

The political establishment has also thrown its weight behind fracking with senior levels of the UK government openly offering their support, and links between top politicians in the coalition and the fracking industry have been exposed[23], including allegations of lobbying of government officials by Cuadrilla's chairman.[24] In early August 2013, Lord Howell (Chancellor George Osborne's father in law) made a spectacular gaffe in a House of Lords speech about how fracking should be done in the 'desolate North-East', which resulted in PM David Cameron feeling the need to write an article in the *Daily Telegraph*[25] saying how fracking would bring down domestic gas prices (a claim later rubbished by Lord Stern, author of the influential Stern report on Climate change[26]), and that it should be done in the South of England as well as the North. Given that most of these intended fracking sites in the South are Tory seats, I wouldn't be surprised if a lot of Tory MPs are now nervously observing the Balcombe protests and worrying whether fracking is coming to their back yard!

This open support of politicians for fracking along with apparent abuses of the local planning procedures has created a perception of the illegitimacy of the whole drilling/fracking process. This was highlighted in a recent Private Eye article[27] pointing out the lack of transparency in the planning process regarding Cuadrilla's application to drill at Balcombe, and that locals were largely kept in the dark. Therefore, whether or not protestors are entirely factually correct in all their arguments is not vital in their perception of the legitimacy of their struggle (although there are numerous objections to fracking in peer-reviewed academic reports[28] that are cited by the more articulate protestors on the front-line). The imposition of fracking on the local community in the perceived absence of any meaningful consultation and the perception that their concerns about local environmental damage are being ignored, means that there is a general distrust of Cuadrilla and the government that is seen to be behind it (as well as the cops who are seen as working to ensure Cuadrilla can continue operations unhindered).

There are concerns about the specific local effects of the drilling, and a recent report[29] highlights Cuadrilla's inadequate preparations at Balcombe, and the risk of contamination of local water supplies because the drilling is too close to the surface. There is also evidence from the US that it is not possible to 100% guarantee that groundwater supplies will not be polluted by fracking.[30] The risk of water contamination is also concerning for the wider Sussex population, as the site is very close to Ardingly reservoir which is a major source of fresh drinking water for the entire region. The campaign also makes the point that there is much more at stake than the immediate vicinity around Balcombe[31]. Because Cuadrilla is an exploration company, it is too small to undertake major extraction projects itself. So, it tends to undertake small-scale drilling operations in specific locations to show that they are viable, and then sell the findings on to bigger oil extraction companies (such as Shell) who have the resources to engage in much larger projects. Therefore, the risk is that if Cuadrilla concludes that fracking is viable in the region, it could be the first of many drilling wells across West Sussex and beyond.

Role of media

The Balcombe protests have all the ingredients for a media-friendly mix of full-time environmental protestors, outraged middle-class locals from the Tory voting shires, and assorted extras that such protests attract (hippies, travellers, druids, conspiracy theorists[32], academics, etc.) mingling together in a sometimes festival-type atmosphere interspersed with set-piece confrontations as the trucks appear with a heavy police escort, and are then forced through the crowd into the site. This media spectacle has been further enhanced when celebrities like Vivienne Westwood have attended the site, and were pursued by a media scrum wherever they went. However, a planned visit by the narcissistic Russell Brand thankfully never materialised, and we only had to endure a message of support from him!

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[22] http://www.bbc.co.uk/news/uk-england-sussex-24112750

[23] http://www.independent.co.uk/news/uk/politics/revealed-fracking-industry-bosses-at-heart-of-coalition-8707589.html

[24] http://frack-off.org.uk/browne-lobbying/

[25] http://www.telegraph.co.uk/news/politics/10236354/You-must-accept-fracking-for-the-good-of-the-country-David-Cameron-tells-southerners.html

[26] http://www.independent.co.uk/news/uk/politics/baseless-economics-lord-stern-on-david-camerons-claims-that-a-uk-fracking-boom-can-bring-down-price-of-gas-8796758.html

[27] http://www.private-eye.co.uk/sections.php?section_link=news&issue=1346

[28] http://frack-off.org.uk/campaign-materials/science-and-data/

[29] http://frack-off.org.uk/geophysics-emeritus-professor-cuadrilla-knowledge-inadequate-for-purpose-required/

[30] http://frack-off.org.uk/fracking-pollutes-groundwater-controversial-new-data/

[31] http://frack-off.org.uk/the-real-significance-of-the-battle-of-balcombe/

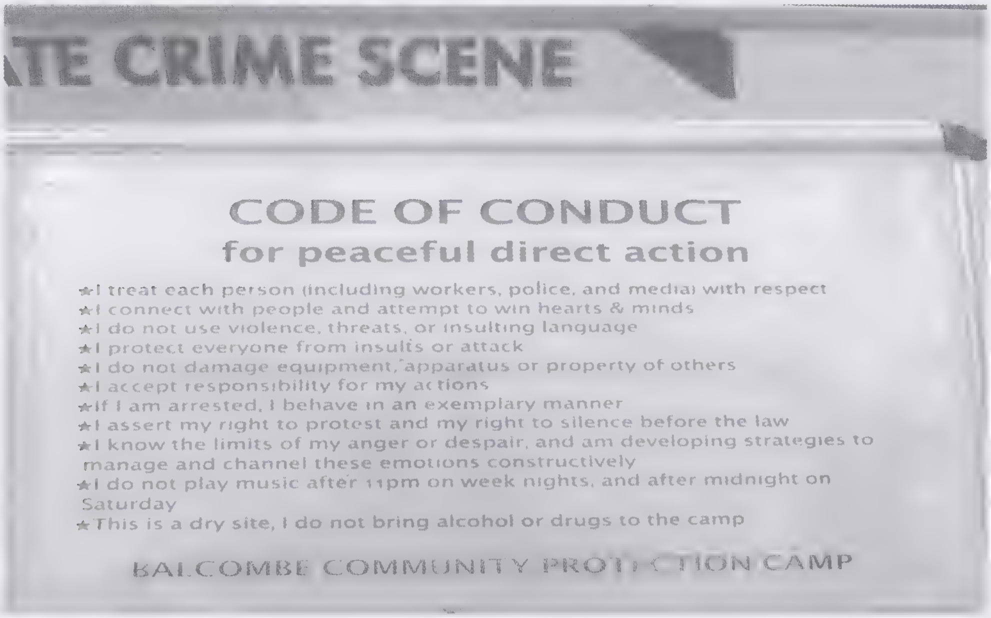
[32] A frequent presence on direct-action campaigns in the UK, claiming that the issue in question (or 9/11, 7/7 etc) is all the result of the insidious influence of the Masons, Illuminati, aliens, etc. in their attempts at global domination, and they often try to impart their wisdom onto anyone unwise enough to stop and listen to them!

Response of the left

The left has so far been rather muted in their response to the Balcombe protests - perhaps unsure of what angle they should take on a campaign outside their traditional comfort zone (e.g. trade union dominated workerist struggles, pointless marches from A to B, trying to persuade people why they should vote Labour etc.), and apart from lone individuals with union flags at some of the protests, I have not seen much significant involvement. The Trotskyist left have made some attempts to cash in on the protests, but compared to their previous attempts to set up front groups in an effort to take over the campaign in question (Coalition against the CJB, Globalise Resistance etc), their efforts have been pretty feeble so far. For instance, the local SWP organised an anti-fracking meeting in Brighton after the protests started, and deposited a single anti-fracking poster with an SWP logo on a tree near the site (the same poster was removed and later reappeared on top of a protestor's tent with the 'SWP' logo replaced by 'rape apologists'![33])

Have we been here before?

The struggle at Balcombe has clear resonance with previous anti-roads struggles seen in the UK in the early 1990s. There are certainly similar factors that reminded me of my early Twyford Down days (including some old faces). For instance, both saw a disaffected local population in the heart of the Tory shires allying themselves with people they would probably have previously crossed the road to avoid! There was also a cheerful (and almost naive) optimism amongst protestors old and young alike and a strong belief in the legitimacy of their struggle. Unfortunately, there is also the danger that this belief can be accompanied by self-righteous evangelism. This has been manifested at Balcombe through the sometimes malign influence of ideological pacifists who 'know' that such protests have to be non-violent under all circumstances and I saw some trying to impose this view on others. A code of conduct 'for peaceful direct action' is posted inside the main info tent (see photo below), and was read out at early meetings to remind people of the need to be non-violent and 'accept responsibility for their actions'. I also heard comments like 'violence is old hat, and it just doesn't work'. I found all this a depressing re-run of endless debates that we used to have in the direct action movement between those espousing ideological non-violence versus those who realised that in some situations more militant tactics were justified or even necessary. I'm sure *Aufheben* readers are well versed with the deep problems with ideological pacifism and aware of the many critiques of such a position (see previous *Aufhebens* if not), so I will limit my observations to the following points.



Did anyone ask the cops if they had signed up to this code of conduct?

[33] In March 2013 the SWP was rocked by revelations that the central committee covered up accusations of rape by a senior party member http://www.theguardian.com/society/2013/mar/09/socialist-workers-party-rape-kangaroo-court

There seems to be a fundamental gap in the understanding of the ideological pacifists when they believe that their actions alone will determine whether or not cops will behave violently towards them. While the police's behaviour at Balcombe has been less obviously brutal than it could be (so far they haven't really used truncheons, shields, dogs or horses), they will still use violence as and when it suits their objectives, because quite simply, it works. Their use of more subtle (but still violent) methods in clearing protestors (such as pressure points, forceful arrests, pushing protestors to the ground etc.) seems to have been quite successful so far in achieving their aims (to allow vehicles to enter the site, and facilitate Cuadrilla's drilling operations without too much disruption). Protestors don't seem to have persuaded the cops to sign up to their code of conduct either, so any professed non-violence will always be a one-sided (and unequal) gesture. Furthermore, asking people new to protests to accept the violence directed towards them without allowing them the possibility to resist or defend themselves (or even try to escape!), does not seem to be an effective way of building a mass movement, as most people do not want to become punch-bags for the police or private security.

Change/transformation of protests

It is interesting to see how involvement in such struggles can result in fundamental and long-lasting change. Recent blogs[34] on the campaign at Balcombe have suggested that charges of 'NIMBYism' (Not in My Back Yard) are often misplaced, as while it may be the specific local issue that is the initial trigger for some people to get involved, they often become politicised by their involvement (especially when they see the lengths the state will go to stop them), and can develop a much wider critique of capitalist relations and state oppression. Previous campaigns such as the M11 even saw some middle-class Wanstead residents leaving previously comfortable lives to become full-time activists after the campaign was over. Such campaigns also attract full-time environmental activists, sometimes jokingly called BANANAs (Build Absolutely Nothing Anywhere Near Anybody), who spend their time travelling to protests across the country and further afield, and consider the whole world as their 'back yard'.

Also at a more direct level, the highly publicised arrests of Green MP Caroline Lucas and others at the sit-down blockades (and the police's use of pain compliant techniques on pressure points to achieve this), illustrate quite nicely the shock and moral outrage that liberal protestors can experience when confronted by the violence that cops will go to in order to achieve their aims. It's very easy to slip into the cynical response of *'yeah they're cops - that's what they do'*, and these were certainly my initial thoughts when first seeing this. However, for people who have spent their lives believing the police are there to protect them and uphold the law, the realisation that the police will never be on their side if they are involved in direct action struggles can be a powerful radicalising process. Therefore, I think seasoned class warriors should not discount the possibility of such a process of transformation occurring in people new to direct action, as righteous anger can produce rapid and even long-lasting change in people who may have previously had some pretty reactionary views (as was seen at Shoreham Harbour and the M11 protests).

Critical analysis of the Balcombe campaign

As with previous struggles in the 1990s, 'rainbow' alliances of hippies and outraged middle-Englanders can be a powerful and eclectic mix in environmental direct action campaigns, but they also illustrate the practical and ideological contradictions that exist and can lead to divisions over tactics and strategic focus. For instance, on a practical level, there seems to be a definite division of labour in levels of commitment and activism. So, while most locals seem supportive of the protests (recent polls have shown that at least 8/10 of locals oppose fracking, with less than 1/10 in favour[35]), they tend not to stay at the camp, and instead visit to offer moral and/or logistical support. There have been some impressive displays of collective support for the campaign by locals and other liberal campaigners, such as a rally held on 4/8/13 by 150-200 locals from Balcombe village (about 10% of the

Caroline Lucas introduces her son to the violence inherent in the state

[34] http://dontpaniccorrectingmythsaboutthecrowd.blogspot.co.uk/2013/08/fracking-protests-in-balcombe-and.html

[35] http://www.youtube.com/watch?v=8Q3D49aERS0

population), and a national march on 18/8/13 that attracted over 2000 people from across the UK (although less than half that number were involved in the nationwide direct action protests the following day). This division is not that surprising (living full-time on such camps tends to rule out involvement from those with work or family commitments and most direct action happens when the trucks enter the site during working hours), and is something I've seen on similar protests in the past. There are of course exceptions to such differences in involvement (see below for some examples), but it did remind me of the slight unease I used to have when living on such camps. For instance, sometimes I worried that I was merely cannon fodder for other people's environmental consciences, and rather than having people continually congratulating me for what I was doing, I would have preferred that they had got stuck in as well!

There are also possible wider ideological differences between the locals and camp protestors. On the way from Balcombe station to the protest site, there was a sign hanging from the trees stating; '82% of local residents oppose fracking and 100% oppose illegal activity' - presumably reflecting a misplaced liberal concern that if they start doing anything 'illegal' then they will lose support for their cause. However, this concept of 'legality' has proved to be a somewhat fluid concept even for the most respectable Balcombe residents opposed to fracking, with none of them seeing to mind when Caroline Lucas and others got involved in the technically 'illegal' act of obstructing the highway. Since the rolling blockade began in September, some locals have also participated in openly illegal acts such as locking on to tankers[36], and the gate to the site[37], often eloquently explaining their reasons for why they became disillusioned with 'lawful' protest and decided to engage in direct action.

One clear difference between the Balcombe campaign the road protests of the early- mid 1990s is that so far there hasn't seemed to be any appetite for site occupations and/or pixieing[38], actions that were common at Twyford Down and the M11 campaigns, and so presumably the drilling proceeds unhindered once equipment and workers are on site. This could be a tactical move, as the site is relatively small and patrolled 24/7 by security, so it is debatable what protestors could realistically do if they managed to get past the police and razor wire fences. However I didn't hear of any realistic consideration of this tactic either, and worry that it could be for ideological as well as tactical reasons, in that there is a fear of alienating the more liberal elements of the campaign if their actions become too 'militant'. Putting to one side whether effective class struggle needs to limit itself with such concerns, such a premise may even be incorrect, as militant action at previous protests did not necessarily deter public support[39]. I also heard anecdotally that some Balcombe locals were in favour of more radical action, but that such suggestions were quickly discounted by the ideological pacifism of the full-time protestors at the camp. This does raise the question of who actually owns such struggles - the locals who will suffer the long term effects of fracking in their area, or self-righteous pacifists who are not local and may very well disappear off to the next protest when the campaign comes to a natural end? It also concerns me that the energy that comes from the sense of righteous indignation that liberals get when realising that the police are not on their side could be dissipated or channelled down ideologically pacifist avenues that are often tactically flawed[40] and fundamentally disempowering if such tactics are implemented unquestioningly because those new to the scene believe this is how one is supposed to do direct action.

Divisions between different camps

I noticed an interesting dynamic emerged during the week of the RTP camp 16-21st August that was a couple of miles away from the BCPC. While the numbers attending were slightly over-hyped beforehand (the cops said they were expecting over 1000 but roughly three quarters of that figure showed up at its height), there was still a good turn-out, including veterans of the No M11 and Reclaim the Streets campaigns as well as activists involved in No Dash for Gas. The RTP camp was well-organised, with field kitchens, media liaison teams and on-site legal advice from Green and Black Cross. They also had a reasonable level of political awareness in that it was generally accepted that the police were not welcome on site, and security measures were in place to protect the space (tripods at each gate, people with walkie-talkies guarding entrances at

36 http://vimeo.com/73631038

37 http://vimeo.com/73675207

38 A euphemism for criminal damage that originates from the 'Earth Liberation Fairies'- an anonymous banner that was used to claim responsibility for more militant Earth First! Actions conducted in the mid to late 1990s

39 In January 1997, protestors against the Newbury bypass invaded a construction site after a symbolic 'vigil' organised by Friends of the Earth (to commemorate a year of the campaign)and destroyed all equipment, causing upwards of £250,000of damage. While FoE condemned this action to the media, it did not adversely affect local support towards the campaign & many locals on the day openly supported this 'Reunion rampage' as it was later called!

40 Pacifist advice given in previous struggles (such as trying to get people to sit down in the face of police horse charges during the anti CJB campaigns in 1994-5) risked dangerous and/or fatal injuries if they had been used.

all times etc.). The cops seemed to respect this, and did not make any serious attempts to enter the site, being content to post a continual presence at the entrances and greet people as they entered. The atmosphere on the RTP camp was more like the Earth First! gatherings I attended in the 1990s, where people would turn up, secure a space, have practical skill-sharing workshops and discussions about overall strategy, plan their action, go and do it, and then leave afterwards before the energy and enthusiasm dissipated.

This was in marked contrast to the BCPC, which has more of a free festival atmosphere (albeit interspersed with bouts of increasingly symbolic attempts to stop traffic entering the site). The physical limits of the camp (it follows the narrow verge of the road outside the main gate) also means that it cannot be realistically defended against incursions, and the police can enter tents to arrest people at will. While both camps were running, they tended to attract different styles of protestors: those from a more social justice/ class struggle tended to go to the RTP camp, and the more lifestyle/ hippy protestors would go to the one outside the site. I even heard anecdotally that there was a bit of rivalry between the two, as some from the BCPC resented the presence of the RTP camp for taking the focus away from them!

Conclusion - Success at Balcombe and beyond?

On 3/9/13 Cuadrilla announced that it would not seek extension of its permission to drill, meaning that its operations are due to finish on 28/9/13.[41] However, this was not that surprising for the campaign,[42] and so while the decision is good news, it is not yet been treated as an outright victory. Where success will probably be measured is in the campaign's ability to inspire a national protest movement that makes fracking so politically toxic and expensive (because of the increased policing and security costs for the anticipated protests), that companies are deterred from bidding for future schemes because of the possible reputational and financial damage.[43] Such a situation is possible, as for fracking to be economically viable, drilling companies will need to sink possibly hundreds of wells into the countryside, and if they are all met with similar protests to those seen at Balcombe, the policing costs will quickly become prohibitive. No doubt this would lead to hysterical outbursts that the forces of law and order are caving in to 'mob rule', as the *Daily Mail* headline of 17/8/13 shrieked when Sussex Police advised Cuadrilla to scale back operations for the RTP week.[44] However, such definitions are in the eye of the beholder, as those who don't agree with direct action protests in the UK, often use the term 'mob', but if they begin to attract wide-spread sympathy, they could quickly be viewed as legitimate expressions of 'people power' against an intransigent political system and/or planning process. I don't expect the political and media establishment to suddenly come out in favour of the ostensibly 'illegal' direct action seen at Balcombe. However, if we see similar protests up and down the country (and especially in the Tory heartlands), it could make the whole fracking process economically and politically unviable, meaning that like the attempted introduction of GM foods into the food chain in the 1990s and 2000s, the whole project may end up being quietly shelved for less politically contentious ways of 'keeping the lights on'.

[41] http://www.bbc.co.uk/news/uk-england-sussex-23944344

[42] http://frack-off.org.uk/the-real-significance-of-the-battle-of-balcombe/

[43] http://dontpaniccorrectingmythsaboutthecrowd.blogspot.co.uk/2013/08/fracking-protests-measures-of-success.html

[44] http://twicsy.com/i/pN6D7d

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Aufheben

**In German, *Aufheben* means both 'to preserve' and 'to abolish'.
Hegel exploited this dual meaning to describe the dialectical process
which abolishes the contradictions in a lower form of thought,
'preserving' (that is, understanding) their moment of truth.
But for Marx the *Aufhebung* of capitalism and its contradictions
is not a question of dialectical 'understanding':
it can be only realised through the revolution of present social relations.**